

From the Editor

MICHAEL WARBY

SOME wit once remarked that the Soviet Union was the only country with an unpredictable past. Since the Soviet Union was the culmination of history (doesn't this all seem remarkably bizarre now?), the whole path of history had to, of course, support whatever the Soviet leadership was doing at the time, and whoever was Soviet leader. Since both these things changed from time to time, history—as officially presented (and unofficial presentations were forbidden, forcibly)—had to change as well.

Australia is certainly no stranger to struggles over history. Much of what passes for intellectual debate in this country is most emphatically concerned with how to view the past, what stories it tells, what values it supports.

As a free society, in place of Soviet-style centrally directed history, we have various scholarly publications which are widely regarded as authoritative. The recently published (1998) *Oxford Companion to Australian History*, edited by Graeme Davison, John Hirst and Stuart McIntyre—two Professors and a Reader in History—is such a volume.

Now, such Companions are somewhat at the mercy of their contributors, their knowledge and judgement. The quality of contributions—particularly about contentious issues—can tell one much about the general quality of intellectual life.

Three entries at least suggest that there are real problems with that quality in Australia. The entry on *philanthropy* by Shurlee Swain reeks of 'progressive' suspicion of action not blessed by being undertaken by the state or 'approved' institutions such as the labour movement, and contains a strong dose of rant about gender roles. Having recently had the pleasure of speaking to several senior figures in non-government organizations, the large role that women play in this sector was very obvious. Since Swain implies that male domination of philanthropy in the nineteenth century was a negative thing, what does the



reversal imply about the twentieth? (In the 'heads I win, tails you lose' rhetoric of such feminism, the marginalization of philanthropy, no doubt.)

The entry on *poverty* by Tom Stannage sanctifies the standard 'progressive' leaching of the concept of genuine deprivation out of the concept of poverty. The concluding statement 'Poverty, in relative if not absolute terms, was probably worse than at any time since the Depression; politically, its alleviation has never been such a low priority' is just bizarre given the massive increase in average incomes since the Depression—the standard pension, for example, has quadrupled in real value. That government expenditure per Australian on health, education and welfare has increased fivefold in real terms in the last 40 years—leading to taxes being at record peacetime levels as a share of GDP—surely suggests a certain 'social priority'.

But the triumph of ideology over accuracy and judgement is nicely displayed in John Carroll's entry on the *Institute of Public Affairs*. His concluding sentence is: 'In the years 1991–96, under the directorship of John Hyde, the IPA became so single-minded and extreme in its economic libertarianism that it steadily lost both influence and financial support'.

Where does one begin to unravel this wish-fulfilment masquerading as history? 1992 saw the election of the Kennett Government, whose adoption of the broad outlines of Project Victoria, as

developed by the IPA and the Tasman Institute, arguably represented the greatest policy success of think-tanks in Australian history.

In the years 1992 to 1993, the IPA reached its maximum influence as measured by income, staff, publications, media interviews or any other measure of output or influence. The IPA was known, by Dr Carroll and his confrères, to be leading the economic reform movement which was transforming the Australian political scene. A transformation Dr Carroll certainly did not approve of. Given that Dr Carroll was an avid critic of the IPA at this time, and the finances of the IPA are available through Australian Securities and Investments Commission records, Dr Carroll has no excuse for not knowing this.

Financial support for think-tanks is best described as counter-cyclical. The worse the situation, the greater the concern, the easier it is to raise money. The late 1980s were a good time to be raising funds, particularly in the Victoria of Cain and Kirner. As Victoria and Australia's position has improved—significantly due to the adoption of market-oriented economic reforms—the fundraising climate has become harder. Nevertheless, the IPA continues to operate at a level of activity and influence considerably greater than it did prior to the early 1980s.

John Carroll is a strong opponent of market reforms. His entry in the *Oxford Companion to Australian History* on the IPA ends as (inaccurate) polemic masquerading as history. It is the belief that history is the plaything of one's ideological preferences which marks the mentality of the apparatchik. Unfortunately, judging from some of the entries in the *Oxford Companion*, ideological self-indulgence is the order of the day in much of Australian academia. No wonder that knowledge of history is in decline among Australian students—if they are to be fed fairy stories, then modern fantasy writers and game-designers do it so much better.

IPA

From the Executive Director

MIKE NAHAN

Business Tax Review: Tinkering with a Broken System

THE business tax system has serious weaknesses. The hard question is: how can we fix them?

Unfortunately, the Business Tax Review—the Ralph Committee—which issued its second and most important report on 22 February 1999 has failed to address many of the big questions.

What is needed is a completely fresh approach to the taxation of business. What we appear to be getting is a 'nip-and-tuck job' on the old system—albeit a very detailed and extensive 'nip-and-tuck job'.

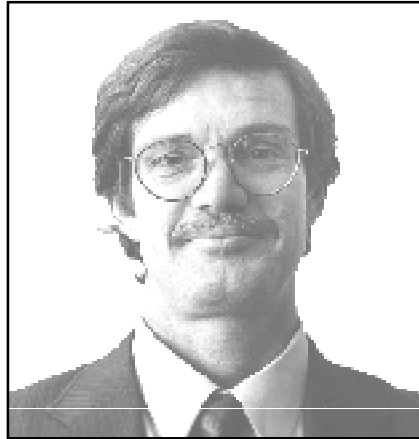
The Committee, however, was hamstrung from the start by its terms of reference. It was required to investigate the ways and means of lowering the corporate tax rate from 36 per cent to 30 per cent while raising the same amount of tax revenue. In other words, it was prevented from addressing the most significant weakness of the tax system, which is that too much of the tax effort falls in the first instance on business.

Business, of course, does not in the end bear the burden of tax, but shifts it to individuals—shareholders, employees and consumers. On equity and efficiency grounds, it is far better to impose tax directly on individuals rather than indirectly on them through business.

The Ralph Committee should have, at least, been allowed to explore the merits of reducing the overall effective tax rate on business and investment rather than simply being limited to shifting the tax burden from one type of business to another.

The simple fact is that, even if the company tax rate is reduced to 30 per cent, the tax will be structured so as to raise the same amount of revenue, so the effective tax rate will be the same.

Given that the main change con-



sidered in the Review is the elimination of accelerated depreciation, the outcome will be that the effective tax rate will rise for firms with long-life assets—such as many mining and manufacturing firms—and the effective tax rate will be reduced for firms with shorter-life assets—such as business services and restaurants. The overall effective tax rate will remain the same.

Clearly the current accelerated depreciation system contributes to the irregular and perverse tax playing field—where firms of similar nature face different tax rates. The problem is, however, that capital taxation is uniformly too high—even for those businesses that now receive special treatment. In other words, the aim should be to lower the effective tax rates, not to equalize at an excessive rate.

The second major limitation of the Review is that it remains committed to pursuing a flawed ideal—that of the 'comprehensive income tax'.

The primary flaw of such a tax is that it results in double taxation of savings and therefore creates a bias against investment and in favour of current consumption. Under it, invested income is taxed twice—once when first earned and then again when invested—whereas income consumed is taxed once—when first earned.

This bias is the central flaw of our personal and business income tax systems and one of the main reasons for our poor savings record. Dividend im-

putation has reduced this bias, but not eliminated it. The other flaw of the income tax system is that it requires the impossible. It requires changes in wealth, whether realized or not, to be estimated on an annual basis.

The result is a tax base which is highly complex, loaded with distorting simplifications and open to political engineering. It is the reason why the *Income Tax Act* has expanded to about 4,000 pages and why a review—such as the latest Report of the Ralph Committee—requires 1,200 pages of impenetrable detail in order to recommend minor changes.

If the recommendations of the Review are implemented, it will improve the tax system—but only for a while and then not far enough.

There is an alternative tax base—an expenditure tax—which overcomes the flaws of the 'comprehensive income tax'. Under this tax base, only income that is consumed is taxed. Income that is saved is not taxed until it is consumed, so the tax avoids the need for complex depreciation arrangements.

An expenditure tax system would include a company tax. Such a tax, however, would not only be much simpler than the current company tax but provide immediate write-off of all capital. In other words, it would provide accelerated depreciation for all capital—irrespective of longevity or industry.

The expenditure tax is the tax of the future—globalization will see to it. Any review that aims to prepare the Australian tax system for the 21st century must, at the very least, explore at length the eventual shift from the old income tax system to an expenditure tax. The Ralph Committee—having neither canvassed an expenditure tax in its first two reports on the problems of the current system nor commissioned the relevant research—avoids the issue.

As Albert Einstein once said: 'Problems cannot be solved by the same level of thinking that created them.' This is the trap into which the business tax review has fallen.

I P A

REVIEW

Tasmania's Green Disease

DAVID BARNETT

Going Green is a great way to end up in the red. A look at the decay of the island State.

TASMANIA is chronically ill from the Green virus, and wasting away. According to the Australian Statistician, Tasmania is the only State or Territory whose population will decline—regardless of which of the ABS's three sets of assumptions are used about immigration, fertility and interstate population flows. By the year 2051, Tasmania's population will be down from its present level of 473,000 to either (depending on which set you adopt) 462,100, 445,700 or 418,500 people.

Perhaps Tasmanians are fortunate that their fertile and pleasant island has become an economic backwater, and a place for mainlanders to escape the hustle and bustle which goes along with economic activity, the roar of urban traffic which is the consequence of two cars in every garage.

If that is so, Tasmanians, providing they can find jobs, should be gratified, because Tasmania's fate is mostly, if not completely, all their own work. Tasmanians vote consistently for the Green and ALP politicians who have made their State so quaint.

They have just done it again, tipping out a State Liberal government and dismissing the last two Liberals among their five members of the House of Representatives.

The consequence, as Peter Nixon reported early last year in his joint Commonwealth-State Inquiry into the Tasmanian economy, is that Tasmania has an unfriendly business environment.

Nixon told the Prime Minister, John Howard, who commissioned the report in October 1996, and the State Premier, Tony Rundle, who lost office in September 1998, that this unfriendly business environment made it difficult to develop manufacturing industries which would be viable and competitive on world markets.

'This factor has been associated with the high levels of sovereign risk associated with the Tasmanian forestry industry,' said Nixon in his report.

'Sovereign risk', in the context of Tasmania's forests, is comprised of Senator Bob Brown and of Christine Milne—who used the Wesley Vale project to launch

herself as a national figure, and to win a seat in the Tasmanian Legislative Assembly.

It is also Bob Hawke, who was Prime Minister when the Wesley Vale project was proposed, and Graham Richardson, Hawke's environment minister. You should also include Tasmanian Senator Shayne Murphy, although he made his contribution

as an official of the Construction, Forestry and Mining Union (CFMEU).

Tasmania's unemployment rate is 10.6 per cent, against a national average of 7.5 per cent; despite a decline in population as a result of interstate immigration during the year to March of 4,650, or one per cent.

There hasn't been a worthwhile development project in Tasmania for decades. Incat, one of the world's leading boat-builders, is Tasmanian, but that just happened as the result of the enterprise of one man, Robert Clifford, whose success surprised everybody.

The rot began 25 years ago, with the flooding of Lake Pedder, in the central Tasmanian highlands, to generate electricity. The ALP Premier, Eric Reece—aka 'Electric Eric'—who was strongly committed to development driven by hydro-electric power, was cheered in the Tasmanian Assembly when he announced that, Green opposition notwithstanding, the Pedder project would go ahead.

Less than a decade later, a proposal by the then Hydro-Electric Commission to dam the Franklin River, in south-west Tasmania, as the last major project of the State's hydro-electric development programme, was defeated by Green agitation.

The issue became symbolic. Greens around Australia took up the cudgels on behalf of a river they had never seen. The Coalition government of Prime Minister Malcolm Fraser, sensing the electoral tide and the strength of conservationist sentiment, offered Tasmania's Liberal Premier

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Robin Gray a thermal power station and a lump of money to abandon the Franklin project.

Gray saw himself as another Charles Court, the Western Australian Premier who incited tiffs with Fraser, and profited from 'standing up to Canberra'. Court picked his issues so that they were storms in teacups, not fundamental conflicts which would inflict real harm on a fraternal government.

Gray's other role model was the Queensland Premier, Sir Johannes Bjelke-Petersen, whose antipathy to Canberra was deep seated. The Franklin was no storm in a teacup.

Gray had been elected on a development programme after the ALP Premier Doug Lowe had vacillated for a year.

The Whitlam Government had accepted the right of the Reece ALP Government to proceed with the Pedder scheme in the 1970s, but the price had been high—Lake Pedder contributed to Whitlam's landslide loss in 1975.

The Hawke-led ALP was not about to put economic development ahead of political considerations. It had, as a basic strategy, a determination to exploit the concern about the environment which had developed—concern helped along by the highest rate of population growth in the developed world, which, ironically, was a basic strategy of the Hawke Government.

The Franklin became an issue in the 1983 election campaign which tipped out the Fraser Government—a case can be

made that it was the decisive issue: greenies in platypus suits haunted Liberal and National Party candidates across Australia.

Newly installed as Prime Minister, Bob Hawke forced the cancellation of the Franklin project by having it listed as a World Heritage area at the United Nations and legislating to enforce the cancellation; legislation ruled (by 4 to 3) constitutionally valid by the High Court.

Tasmania got no thermal power station. It got top-up money to build the King and Anthony dams on the West Coast, which made up 112 megawatts of the 180 megawatts which the Franklin would have supplied at less cost, and an undertaking that the other 68 megawatts would be financed if there was ever a demand for it.

It can be argued that, from that moment, Tasmania's downhill course was set. The ALP was ever mindful that saving a Tasmanian tree at the cost of a Tasmanian job was worth votes on mainland Australia. A pattern emerged of knuckling under to Green pressures, mobilized nationally, to rescue this river or that forest from capitalism.

Brown made his name campaigning against the Franklin. He got 10 years in the Tasmanian Assembly as a member for Denison from 1983 to 1993, and has been elected for six more as a Senator. He was elected as a conservationist, but pursues a Left agenda.

It may be difficult for the rest of us to perceive how voting against economic reform saves rivers, trees and little furry creatures, but not for Bob Brown, who is just as adamant about the GST as he was about the Franklin. Perhaps he has arrived at an ultimate truth—economic stagnation is good.

Australian Newsprint Mills—which was jointly owned by the Herald and Weekly Times group and Fairfax, and which is now owned by Fletcher Challenge of New Zealand—has a pulp and paper mill on the Derwent at Boyer produc-

ing newsprint without the benefit of tariff protection.

Associated Pulp and Paper Mills (APPM) operated on Tasmania's north-west coast, producing pulp at Burnie and paper at Wesley Vale, near Devonport. It is a remarkable part of Australia, possessed of rich, red, well-watered basalt soil. Nowhere else in Australia is so suitable for horticulture.

Burnie had a pulp mill, a paper mill and a hardboard mill marketed as Burnieboard. At Wesley Vale, another APPM mill produced white paper. The plant was antiquated, and the operation survived behind a 25 per cent tariff which was already moving down.

In these circumstances, APPM decided on a new mill at Wesley Vale to produce pulp by the kraft process, which uses caustic soda to dissolve lignin.

The new Wesley Vale mill was to be a massive project, involving capital investment of \$1 billion. APPM brought in a partner, the Canadian firm Noranda. Wesley Vale was to produce 440,000 tonnes of pulp a year on an internationally competitive basis. There would be 20,000 tonnes for the Tasmanian mills, with 420,000 tonnes being exported.

APPM, wholly own by the listed North Limited, wanted the Wesley Vale pulp mill as a replacement for its Burnie pulp mill, which was 50 years old and at the end of its working life, although they never did say so. They sited it next to their paper mill at Wesley Vale, 40 kilometres from Burnie, and made plans to build a further paper mill, at the same site.

It was always obvious to the Hawke Government, that Wesley Vale was to replace the mill which had been the basis for a rise in Burnie's population from 4,000 in 1938 to 10,000 at the end of the Second World War, and to 18,000 today.

Furthermore, being within bare commuting distance, it was the last chance for Burnie. It was also, you might say, just what Tasmania needed, even if it were plunked

in the middle of the nation's best horticultural land, where Christine Milne had a farm.

As with Pedder and the Franklin, Wesley Vale became a politico-emotional battleground, launching Milne on a political career which took her to the Tasmanian Assembly, where she was to remain until unseated in September 1998.

For the ALP government in Canberra, Wesley Vale was another political god-send. Hawke appointed Richardson to be environment minister in 1988, not because Richo was a famous greenie, but because, as former NSW ALP machine man, he was a famous political operator.

Hawke and Richardson could not deny that they knew there were playing fast and loose with the livelihoods of the Burnie workforce, as they shifted the environmental requirements on Wesley Vale around, in order to wring every last drop of political capital out of the project.

It was just as obvious to then ACTU President Simon Crean, who said at the time that the company was prepared to comply with standards more stringent than any in the world, and no government could ask for more.

There were other factors at work, as there always are. Robin Gray's environment minister, Peter Hodgman, became nervous about the strength of the Green push, so that the State government appeared ambiguous and uncertain in its support for APPM.

The last straw was when Richo commissioned the CSIRO to draw up a further report and guidelines for such projects. North and Noranda pulled out. As it happened, the Wesley Vale project was within those CSIRO guidelines when they eventually appeared, but the issue in 1989 was not the environment. It was sovereign risk, that is to say government risk: a concern more common in Third World countries than developed nations like Australia.

Simultaneously with these events, a retired judge of the NSW Supreme Court, Michael Helsham, was conducting an inquiry at the request of former environment minister Barry Cohen into the Lemon-thyme and South Forests, to consider whether 283,000 hectares of forest should be up for World Heritage listing.

Helsham found only eight per cent of the area he was investigating warranted nomination for the World Heritage list. Richo was appalled. It was a blow at the election strategy which he had developed. The Helsham report became unavailable. There was no media distribution.

Richo took a submission to overturn the suddenly secret Helsham recommen-

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dations to Cabinet, which was divided. Richo had the support of Kim Beazley, who suggested Richo shore up his case. Richo enlisted the support of Treasurer Keating, who carried the day.

The ALP Cabinet agreed to nominate 70 per cent of the Helsham area for World Heritage listing—which Hawke subsequently and unilaterally raised to 80 per cent—to make a total of 378,000 hectares excluded from logging.

The Huon Forest Products joint venture was established in 1986 to use waste timber from sawlog operations in the Australian Newsprint Mills and Southern Concessions which would otherwise be left to rot. All feed into the chip mill was to be residues.

There seemed to be no reason, even for a Green, to oppose the project. The only effluent was logwash—earth washed off logs to clear them before milling. But oppose it the Greens did. The Gray Government—fearful of losing the 1989 election—dithered again, postponing the granting of environmental licences.

Gray lost anyway. The ALP's Michael Field entered a pact with the Greens, without whose support he could not become Premier. Bob Brown had 100 conditions, one of which was the dumping of the Huon Forest Products project.

Richo was now satisfied. The Green preferences strategy was in place. In the 1990 Federal elections, Richo and the ALP Secretary, Bob Hogg, appealed successfully to those voting Green to give the ALP their second preferences.

Just as the Franklin was a winner for the ALP in 1983, so Wesley Vale was to help give the ALP a fourth term in Canberra. Richo had done the job he was given when Hawke so unexpectedly made him environment minister.

The pulp and paper industry on Tasmania's north coast was now doomed but, just to make sure, the CFMEU in 1992 pulled on a work practices strike in Burnie. They won.

In 1993, North sold APPM to Amcor—which was once known as APM, and which already had a sizeable operation at Maryvale in Gippsland, producing pulp and paper using the kraft process.

You might wonder why such a company would need antiquated plant in Tasmania, with a militant workforce. Amcor must have asked themselves the same

question, for the company shut the Burnie pulp mill down in October 1998.

Amcor still has mills making paper at Burnie and Wesley Vale, both of them requiring further investment to survive, fed with pulp imported from Asia at a cost which is \$100 lower than the cost of producing pulp from Tasmanian woodchips.

Pressing on with Tasmania doesn't seem to make a lot of sense. Nor does further investment, when Maryvale is producing the same product. Why not concentrate activities at Maryvale, say a final farewell to Burnie, and let it sink, economically speaking, into the Southern Ocean? Stand by, for the next instalment of this saga of decay and decline.

But how sad for the Burnie workforce, and for a town which grew from 4,000 in 1938 when the first mill was opened to 18,000 today, but where the unemployment rate is 13 per cent and rising. We must weep for them.

Well, must we? The people who worked at the Burnie mills, producing pulp, particle board and, for the time being, paper, are not children. They are adults, with the right to vote, and to raise their voices.

How sorry should the rest of Australia be for people who do not exercise those rights in the interests of their country, their State, their families and their own jobs? How sorry should the rest of Australia be for people who voted for their own Darth Vaders, and, furthermore, continue to vote for them?

How sorry should we be for a workforce which forces up labour costs when, at any time, the five o'clock whistle's next blast might be its last?

Isn't it enough, just to have to pay unemployment benefits to people who brought it on themselves and who con-

tinue to reward the instruments of their ruin by electing them to office?

Not only did Christine Milne get nine years in State Parliament, not only is Bob Brown a Tasmanian Senator, but so is Shayne Murphy, who, as an official of the CFMEU, led the Burnie strike in 1992. The former Liberal MP, Chris Miles, lost his seat in Federal Parliament on October 3 to the ALP's Peter Sidebottom, another union official.

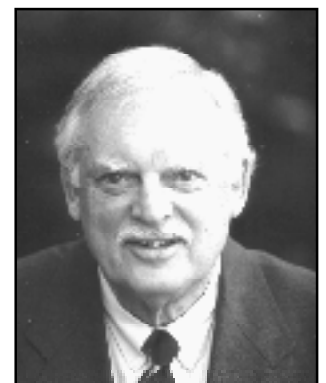
Of the 17 Tasmanian members of Federal Parliament, all but the five Liberals can be fairly described as opposed to economic reform—Brown unthinkingly, Brian Harradine on reflection because the measures are 'ideological' and the ALP members because they are only following orders.

Peter Nixon, in his hard look at the Tasmanian economy, came to the conclusion that the State government should sell the Hydro-Electric Corporation, use the proceeds to discharge the debt incurred on behalf of the HEC in building dams and start again.

Nixon also recommended electoral reforms to reduce the number of State politicians, which Premier Rundle followed in a deal with ALP Opposition Leader Jim Bacon, once of the Builders' Labourers Federation and brother of prominent Sydney Green activist Wendy Bacon.

Bacon campaigned on a pledge to save the Hydro from privatization, and won. When the Death Star is in their sector, Tasmanians can't help themselves. Maybe, if economic stagnation is what they want, we should let them get on with it, and just enjoy the place on our holidays.

Tasmania is, after all, very beautiful—should we care if, like Marilyn Monroe, it is also dumb and self-destructive, prepared foolishly to place its destiny in the hands of ruthless, powerful men and women who hold their own interests to be absolute?



David Barnett is a senior Press Gallery journalist

IPA

Tax Reform in New Zealand: The Shape of Things to Come in Australia?

ANGELA RYAN

New Zealand had preceded us down the path of tax reform. We can learn from its experience.

OVER a decade ago, New Zealand undertook many of the tax reforms that Australia is currently contemplating. As a result, it gives us first-hand evidence of the benefits of lasting tax reform, the strategies that can be employed to deliver an efficient, fair and simple system, and the problems that can be solved by good reform.

In the late 1970s, tax was a very controversial political issue in New Zealand, reflecting a poorly-constructed tax system. Tax collections were failing to meet government revenue requirements and the system overall was highly distortionary with numerous concessions and high rates of tax.

THE TAX REFORM PACKAGE

The package approach to tax reform adopted by the Labour government elected in 1984 reflected the view of New Zealand's then Finance Minister that rapid reform on a broad front spreads the burden of reform equitably, thus enhancing the legitimacy and acceptability of the programme.

The reforms that made up the tax reform package have stood the test of time because they were linked together by a common theme. That theme was the need to have broad bases (so that if you are taxing income, you want to tax all kinds of income, or if you are taxing goods and services you tax all goods and services) and low rates. This 'broad base/low rate' strategy was not mere political rhetoric, it was reflected in all aspects of the package.

Such an approach recognized that genuine tax reform would allow resources to be used more efficiently because deadweight costs of taxation would be reduced and business would be able to compete on a genuinely equal footing. It meant that New Zealand's national income would be higher, and New Zealand businesses would be better able to compete in the world and at home.

As a result, tax reform was tackled on a wide front with the key elements being:

- reduced reliance on income tax through the introduction of a broad-based value added tax—a GST, including items typically not taxed in Europe such as food, clothing, health and education;
- the removal of tax concessions and the closing of tax loopholes in the income tax; and

The reforms that made up the tax reform package have stood the test of time because they were linked by a common theme

- the reduction of personal rates of tax (the top marginal tax rate was cut from 66 per cent to 33 per cent, and was aligned with the company tax rate).

The catch cry of reform was broad-tax bases, levied at lower and less variable rates of tax. This approach was adopted as the best means to:

- raise sufficient revenue to correct New Zealand's fiscal imbalances;
- increase efficiency by reducing tax differentials that distorted economic behaviour; and
- reduce the tax burden on wages and salaries and thus be seen as fairer.

The GST rate in 1986 was 10 per cent but it was raised to 12.5 per cent in 1989, when further income tax cuts were introduced. Unlike most VAT systems, only one tax rate applies. At 10 per cent, tax may be quickly and easily calculated based on GST-inclusive turnover (this

is equal to one-eleventh) or on tax-exclusive turnover (the tax is one-tenth). Similarly, at 12.5 per cent the tax fraction is one-ninth or one-eighth. The next rate at which tax fractions can be used is at 20 per cent, where the fractions would be one-sixth and one-fifth.

COMPENSATION ISSUES

On its own, the GST can be described as regressive. The revenue from the GST was, however, used to finance substantial reductions in personal income tax as well as financing a compensation package that saw social welfare benefits increased across the board by 5 per cent (overall, at a 10 per cent GST, Treasury calculated that prices would rise by only five per cent because of the elimination of sales tax and the range of goods not subject to GST). In New Zealand, people accepted the GST on the basis that it was part of a system that was fairer than the burdensome income tax system it was, in part, replacing.

Compensation was handled by redistribution through the income tax and benefit system. Providing exclusions was found to be an ineffective way of protecting the poor. For example, it was estimated that households with the lowest 20 per cent of income would have received only 15 per cent of the aggregate benefit of an exclusion for food. The other 80 per cent of households, which were not considered to be poor, would get 85 per cent of the benefit. The same is true of other exclusions—the well-off spend more on everything: therefore they pay the most GST when the base is broad.

Overall, because the revenue base was stronger, it was possible to provide compensation for those who genuinely needed compensation from within the reform package.

It is easy to understand the pressure that politicians were under to give way and, overseas, there are many examples of exclusions for basic foods, children's

clothing, books, health costs and so on. Any exceptions add enormously to the complexity of the system. Much of the pressure applied in New Zealand was countered by providing offsetting relief in the form of tax cuts and benefit increases.

It is interesting to note that booksellers who argued strenuously for an exclusion for books on the basis of a United Nations Convention that books should not be taxed, subsequently applauded the introduction of GST on the basis that high income earners (who tend to read more books than lower income earners) were significantly better off overall as a result of the tax cuts they had received.

COMPLIANCE AND ADMINISTRATION COSTS

It is undoubtedly true that the GST imposed some additional compliance costs on businesses in New Zealand. The GST called for improved accounting systems, improved record-keeping, and in some cases additional skilled administrative staff. There are compensations, however. First, sales tax was scrapped and second—and more importantly—the GST provides cash-flow benefits to registered persons (although this comes at the price of a cash-flow cost for the revenue authorities). For a cash-based supermarket, for example, the GST collected is likely to be held for up to two months and the use of money in that time will far exceed any additional costs incurred in complying with the accounting requirements associated with a GST. One supermarket chain calculated that the use of the money benefit would exceed NZ\$500,000 per annum.

In addition, many businesses in New Zealand found that the requisite record-keeping assisted in making better use of their own resources and business planning.

It must be stressed that it is the broad base applied in New Zealand that has kept the compliance and administration costs to a minimum:

- with any tax, boundary issues will arise—a base that is as broad as that applied in New Zealand keeps these to a minimum;
- for many businesses, especially small ones, the impact of the GST on day-to-day business is relatively minor as simple fractions can be applied to cash book entries or through electronic records. As soon as multiple rates are introduced (including exemptions and exclusions), administration goes up because of the need

to keep separate accounts for supplies taxed at separate rates; and

- it is a fact of life that governments need at least two broad tax bases to fund their revenue needs. The alternative to a GST is not a compliance-cost free world of no indirect taxation.

When accounting, audit and other associated costs of collection are taken together, the GST is expensive to administer. However, the sales tax administrative system was dismantled, and the costs are lower than in countries with multiple rate GST/VAT regimes.

WHAT CAN NEW ZEALAND'S EXPERIENCE TELL US?

Australia undertook its own tax reforms in the mid-1980s and introduced many of the changes that New Zealand has on the income tax side. These included introduction of the fringe benefits tax, introduction of an imputation system and so on. Nevertheless, New Zealand had pursued a broad-based approach to income tax more zealously than Australia with, for example, the removal of accelerated depreciation, that is only now being considered in Australia.

The more incremental approach to reform and the failure to address the shortcomings of the indirect tax base in Australia means, however, that, a decade later, there are strong echoes of Australia's current tax system in what New Zealand left behind when it initiated

The New Zealand experience shows that the road to greater harmony and stability is to broaden bases ... and to lower tax rates

reform. The ramshackle wholesale sales tax system; the relatively high rates of tax which apply to average income earners; the perceptions of unfairness because of the apparent tax planning that is available to non-PAYE taxpayers (due to the different rates that apply to different entities and the holes in the income tax base) are all features of Australia's current system.

There is an increasingly adversarial relationship between the tax office and taxpayers. This is perhaps the best evi-

dence available of the problems faced when the existing tax bases are inadequate to raise the revenue which government considers necessary to meet public demand for government expenditure. There is a growing sense of unfairness when the tax authorities are forced to push every margin to its limit to extract more from the tax base, and some taxpayers are able to get around the more stringent rules while others are not.

The New Zealand experience shows that the road to greater harmony and stability is to broaden bases (so people perceive that the system is fairer) and to lower tax rates (so the incentive to avoid and evade is reduced). Together, they provide a strong revenue base from which adequate compensation can be drawn.

In looking at the application of such a framework for Australia, business groups have come out firmly in favour of a broad-based GST, and welfare groups have traditionally been concerned with broadening the income base to ensure that people pay a fair share of tax on their income. The interesting question now is; can we take something from both of these approaches by adopting the New Zealand model of broad bases and low rates for both our consumption tax and income tax and get the best of both worlds? Could this be the way to real, lasting tax reform in Australia?

Key lessons from the implementation of tax reform in New Zealand suggest:

- a package approach is best—it allows for trade-offs;
- the tax system needs to be directed at raising adequate revenues at the lowest possible economic cost as its main objective—this allows for much greater simplicity in the system, as well as enhanced efficiency;
- providing a single, consistent theme to reform (like the broad-base, low-rate policy) makes it easier for people to see the benefits of reform and provides a degree of certainty in the midst of change; and
- there needs to be a determination to get tax policy right first, with adequate compensation to be delivered outside the tax system.

SPECIAL FEATURES OF THE AUSTRALIAN SYSTEM

While there are many similarities between Australia and New Zealand that make the New Zealand experience of great interest to Australia, two main factors relating to institutional structures ►

have to be kept in mind when translating the New Zealand experience to Australia.

First, New Zealand has a unicameral Parliament and in the days of the introduction of a GST had a first-past-the-post voting system. This meant that once the government of the day had decided it wanted to introduce a GST it could do so. It did not have to be concerned about 'getting the numbers' from minor parties, as it did not have to get the legislation through a chamber in which it did not hold the balance of power.

In addition, sub-national authorities in New Zealand play a comparatively very minor role in terms of functions and revenue-raising powers. Because of that, the New Zealand Government was spared the problems that can arise with State governments.

None of this makes reform any less necessary. But it does make it that much harder to achieve. If Australia chooses to go down the New Zealand path, it means more work has to be done in ensuring broad-based support for the change, and effort has to be put into making sure that everyone is prepared to make changes in the national interest.

The New Zealand tax reform process has many lessons from which Australia can learn. It is a demonstration that even something that seems as politically impossible as a broad-based consumption tax coupled with a broad-based income tax can become accepted—even part of conventional wisdom—over time.



Angela Ryan is Director—Taxation for the Australian Society of Certified Practising Accountants. A more detailed paper on these matters can be found at www.cpaonline.com.au.

I P A

Used Anglicans

The Australian Education Union and the Anglican Synod Report

KEVIN DONNELLY

It is not only when supping with the Devil that one needs a long spoon

We ask members to wear a blue ribbon as a symbol of public education. It will be an important sign of our resolve to fight for the survival of public education in this country. Let us not lose what has evolved as a quality, free, secular education system. Let the battle begin, we will defend state education against the conservatives and ensure that future generations will have access to a system based on the principles of equality and social justice.

The AEU News,
June 4, 1998, page 9.

THE Australian Education Union (AEU), if nothing else, is quite open and honest about its intentions to overturn recent changes to the Australian school system. The rhetoric is one of 'battle' and words like 'survival', 'fight' and 'defend' make it perfectly clear that, in the war against so-called 'conservatives' and 'economic rationalists', the AEU will do almost anything to win the day.

Since the national conference in Sydney last year, organized by the AEU and from which the above quotation has been taken, the teacher union has implemented a number of strategies to achieve its ends.

The first relates to a marginal-seats campaign undertaken before and during the recent federal election. Obviously, one very effective way to have the union's policies taken up is to have a Labor government in Canberra willing to repay its debt to the union movement. Not only did the union letterbox drop marginal seats, but a series of anti-GST advertisements were also run on evening television.

A second strategy employed by the AEU is to orchestrate public meetings involving fellow travellers and sympathizers. The union, instead of appearing alone—and thereby being seen as self-interested—brings together a collection of 'independent' academics, commentators

and community groups who, as you would expect, argue the union's case.

One such meeting occurred at the Melbourne Town Hall in June 1998. Described as a 'community summit' (*AEU News*, July 9, 1998), the meeting gave special prominence to those opposed to the Government and those guaranteed to promote the union line. Not surprisingly, the Melbourne meeting concluded with the following:

The final outcome of the Summit was a resolution that condemns the ever-widening gap between the haves and the have nots, rejects the concept of economic rationalism and calls for a society that is tolerant and considers community needs.

The AEU News,
July 9, 1998, page 16.

A second meeting, also held in Melbourne, organized to argue what the union defines as the case for public education, occurred on 2 August 1998. Once again, the meeting involved those sympathetic to the union: including pro-Left politicians, trade union representatives and 'friendly' academics. The meeting agreed on a 'Statement of Principles for Public Education' that endorsed the AEU's policy on education.

Supporting publications willing to argue the union's case is a third strategy the AEU is using to further its cause. The publication of *Going Public: Education Policy and Public Education in Australia* by the Australian Curriculum Studies Association (ACES) and the Centre for the Study of Public Education at the University of South Australia, provides a very recent example of this approach.

The book includes essays opposed to recent changes in the school system and very critical of the so-called 'conservative' agenda in areas like accountability and increased parental choice. The benefits of this particular strategy are that the union appears at arm's length from what is writ-

REVIEW

ten, the book has public credibility as it is published by an 'independent' third party and it can be used at a later stage as evidence that all is not well with the public education system.

That the union uses the preceding three strategies to further its cause should not be considered unusual or wrong. We live in a democracy and one of the greatest freedoms we have is the right to organize and to enter the public debate. Given the union's affiliation with the trade union movement, and its consistent support of the ALP during elections, it is also not surprising that the union is a strident critic of conservative governments.

Where there should be cause for concern is when the union, and those who support it, employ respected and independent third parties to argue their case without showing their hand or admitting that what is intended is part of an orchestrated political campaign.

Such is the fourth strategy employed by the AEU and it is evidenced by the publication of *The State of Our State Schools: The Report of the Synod Schools Task Group on Victoria's Public Education System*. The report is the product of a task force established by the Anglican Melbourne Diocesan Synod and it was tabled, amid much controversy, at the October 1998 meeting of the Synod.

If governments and parties are compromised by their involvement in politics, then the Church represents a beacon symbolizing truth and independence. Given such currency, it is understandable why those committed to political solutions would be very happy if the Church advocated their particular case. Of course, such support should not be too obvious or easily identified.

The report of the Anglican Task Group is, on the surface, an independent and balanced evaluation of the state of Victorian State schools. It traces the history of secular education in that State, describes a number of models that have influenced its development and provides a critique of recent changes.

The recommendations at the end of the report present a series of innocuous statements that, amongst other things, seek ongoing support for public education, the need for government to increase expenditure and agreement that the report be commended to parishes for 'study and action'.

Notwithstanding the above, a closer reading of the report reveals that it is very much a political document written so as to endorse and support the AEU's public campaign and to condemn the conservative agenda in education.

Evidence that the report is not independent can be found on examining the names of those involved in its production. Ann Morrow, a member of the Task Group, is also a prominent member of the group established by the AEU in late 1997 to defend public education. Not only has she taken a key part in the meetings described earlier in this article but, under the previous ALP government, she was a close confidante of the then Minister for Education, Joan Kirner.

One of those responsible for carrying the research for the report, Michaela Kronemann, is currently Research Officer for the Victorian Branch of the AEU. Ms Kronemann has also been involved in the public meetings orchestrated by the AEU and, as one would suspect, is a strong advocate of the union line.

Further evidence of the lack of independence in the report is the way it uncritically mirrors union policy on a number of important issues. One of the union's key policies involves restoring the New Schools Policy and abolishing the Enrolment Benchmark Adjustment (EBA) mechanism—the effect of these Howard Government initiatives has been to make it easier to establish non-government schools and to penalize government education systems financially if they lose market share.

While one might expect that a Task Group representing the Anglican Church, and Anglican schools, would be a staunch defender of the non-government school system, such is not the case. Not only does the Task Group's recommendations adopt the union's stance about the New Schools Policy and the EBA but, in the body of the report, those parents who send their children to Anglican schools are criticized for undermining the government system and for worshipping money (pages 6–7).

The rhetoric and arguments used in the Task Group's report also mirror those of the AEU. The report argues that governments around Australia, by making schools more accountable and allowing parental choice, are simply concerned with increasing the power of the privileged and leaving the less well off with 'a residual low-cost government sector targeted to low income groups'.

Referring to what it terms the 'marketisation of education', the report also argues that recent changes have 'the potential to destroy the system itself'. Not only is the school system under threat, but the report goes even further and states that the very fabric of society itself is at risk: 'in the name of free enterprise, social solidarity is being suppressed and inequalities normalised'.

Finally, much of the statistical information in the report about class sizes, student/teacher ratios, education budgets and resourcing schools uncritically accepts much of what the AEU has argued over the last 12 months.

Like the union, the Task Group fails to mention that the base line used to compare education spending in Victoria—spending for the years 1989–92—was not financially viable. Also ignored is the fact that a succession of Labor education ministers had to seek substantial additional funding from the Treasury in those years to meet costs which had been incurred in excess of approved parliamentary appropriations.

The report also fails to mention the substantial real increase in education expenditure since 1991–92—including an increase in funding for students with disabilities from \$199m in 1992 to \$250m in 1998—and the fact that parent and teacher surveys carried out by schools show a high level of satisfaction with the state of State education.

In the weeks leading up to the Report being tabled at the Synod meeting, it suffered a good deal of media criticism. Notwithstanding the very positive description of the Report in the teacher union's newsletter ('Anglicans blast education cuts' *AEU News*, 1 October 1998), a number of articles and reports in Melbourne's daily papers criticized the Report for being one-sided and factually incorrect.

Such was the flawed nature of the Task Group's Report, that, when it finally came to the Synod vote, it was only accepted by a handful of votes—219 voted in favour, 212 against with about 150 abstaining.



Dr Kevin Donnelly is Director of Education Strategies, a Melbourne-based consulting group. He advises State and Federal governments and, in the words of The Age, is someone who 'was a critic of the previous State Labor Government and had recently defended the Coalition's record in education'.

I P A

Slave Labour

BOB DAY

If we are so concerned about youth unemployment, why do we impose it?

It was the best of times, it was the worst of times, it was the age of wisdom, it was the age of foolishness... it was the spring of hope, it was the winter of despair... We had everything before us, we had nothing before us.

Charles Dickens,
A Tale of Two Cities

THE paradoxes in this passage from Dickens capture the predicament of young people entering the labour market today. They've been born into one of the most affluent eras in human history—with access to better medical care and longer life span than any previous generation. As well, rapid progress on the medical, scientific and technological fronts will continue to transform their lives. In many respects, we can confidently say there's never been a better time to be alive.

But the mechanisms for dealing with such remarkable change have seldom, if ever, been so ill-matched for the task. The lack of flexibility in the youth labour market means that appallingly high percentages of young people are excluded from the world of work. The tragically high incidence of youth suicide is one direct result. Another is drug addiction and related crimes—which account for more than half the prison population—along with youth alcoholism, homelessness, alienation, poor health, the collapse of family life ... the list is all too familiar. And, whilst it is commonplace to suggest that there are no simple solutions, there is something close to a panacea for these ills—a job.

It has been suggested that the concept of 'competency' can replace junior wage rates. This notion appeals to many in the union movement and elsewhere because it is marginally more defensible on the basis of equity than the present archaic arrangement—although the proposed mechanism for calculating such competencies is totally implausible.

There is an alternative to both: that the only relevant consideration should

be the value of the labour itself to the person hiring it.

If all youth employment in Australia today was provided by firms with the resources and staffing policies of BHP in the 1960s, we wouldn't have a problem. Such companies would be able to amortize, over time, the cost of subsidizing junior wages considerably in excess of the value of the work being done. Unfortunately, the bulk of prospective employers of young people are in the trades or small to medium-sized businesses which simply do not have the margins to afford such luxuries.

Under the present arrangements, such prospective employers are precluded from providing gainful employment and on-the-job training to young people who are desperately looking to get a foot on the employment ladder. Employees who want to sell their services to an employer at a price the em-

***Australia's ...
industrial relations is
still based on the
theory of conflicting
interests completely
at odds with the
realities of the
modern workplace***

ployer can afford are likewise prevented from doing so. Yet there are perfectly sound reasons why prospective employees might want to reach an arrangement outside an award—a greater degree of independence, a contribution to their own keep, job satisfaction and, of course, the incentive of future opportunities are among the more common motives.

Australia's 'rear-view mirror' of industrial relations is still based on the theory of conflicting interests com-

pletely at odds with the realities of the modern workplace. The notion of voluntary acceptance of a wage unrelated to an award seems to offend those who see it only as 'exploitation'. But this view is demeaning to the common sense of those it purports to protect as well as the decency of most employers and, as far as the small business sector is concerned, it is a ham-fisted intervention in the relationship between employee and employer.

The only sensible and intellectually consistent position is for junior wage rates to be based on the value of the work to the person purchasing it and set by agreement between the employers and the employees. It is, practically speaking, impossible for third parties—except, perhaps, for the parents of a junior employee—to understand or make judgements about what is, or is not, in the employee's best interests. Those to whom such a prospect is anathema simply have not confronted the fact that, as they presently stand nearly all junior wage rates are set at levels which make them uncompetitive in the job market. They do not appear to have applied the traditional test of *cui bono*—'who benefits', in whose interests are such arrangements? Certainly not those of the young unemployed.

A regulatory system that excludes so many from employment and prevents employers from giving them work must eventually be exposed for the scandal that it is. To those most directly affected by the intransigence of the process, it is increasingly plain that it has less to do with concerns about social justice and a lot to do with the highly politicized role of trade unions and the tribunals themselves. Politics—rather than economic or social considerations—blocks our young jobless from access to the world of work.

The falling rate of participation in the union movement among those who have jobs is partly attributable to the perception that unions are more concerned with protecting their own interests than those of their members. The rhetoric of equity in income dis-

tribution pales even more quickly for those who have no job and have been priced out of the market thanks to a centrally determined award wage. The young, who are generally well aware of their need to acquire skills if they are to become productive employees, will not thank those who have precluded them from on-the-job training. Over-regulated wage-fixing systems, by contributing to the destruction of jobs, add to the inequity they profess to correct.

As P.P. McGuinness recently observed in the context of unskilled workers, 'it makes sense not to compel employers to pay such a high minimum wage, but instead to preserve living standards thought socially appropriate through the tax and social security system. If, for some reason, you want employers to pay more, this is best achieved through the tax system'.¹

The same applies to youth wages. The burden of supplementing the value of the labour to the employer so as to achieve the unrelated goal of a minimum wage ought to be met by the community at large. The community is, after all, like the individual youth, getting considerable benefit from the fact that they are employed. According to a National Youth Affairs Research Scheme Study (*The Price We Pay*, 1997), youth unemployment already costs the Australian community more than \$2 billion a year. It is simply inequitable to expect small business and tradesmen to foot the entire bill and unrealistic to pretend that they can afford to do so and still remain competitive. Yet it is widely acknowledged that small business is the sector which has the greatest potential for generating new jobs. In the Prime Minister's own words, 'The way to solve youth unemployment is to liberate the small business sector'.²

It is one of the long-term consequences of the Federation settlement that we have developed a selective blindness about economic fundamentals. 'Historically, Australia developed a centralised wage-fixing system as a result of the political consensus which also gave us tariff protection. It's safe to say that, without the one we would have never had the other. High tariff walls led to what's been called "the cost-plus mentality". Whatever goods cost to manufacture—including the cost of labour—the manufacturer would simply add his margin to arrive at a price'.³

But, at some point, we have to stop deluding ourselves that we can increase

the price of goods or services—like labour—without it resulting in a decrease in demand for those goods and services. Price does matter. And 'pricing young people out of the job market' is not just employer rhetoric but a harsh reality over which they have no control.

The laws of supply and demand are immutable and they apply as much in the workplace as in any other market. When there are external distortions,

The burden of supplementing the value of the labour to the employer so as to achieve the unrelated goal of a minimum wage ought to be met by the community at large

it is the weakest who suffer most. It was once the case that bricklayers employed lads to carry their bricks, as plumbers employed someone younger to dig trenches for them. In exchange, the lads were taught a trade. Until the cost became prohibitive, as a direct result of centralized wage-fixing, this arrangement suited all parties and was well-understood by all.

Historically, the collapse of that employment-generating system is well documented. In 1951, a first-year apprentice was approximately 7.5 per cent of a tradesman's wage and there were virtually no unemployed teenagers. By the mid-1970s, the wage rate had doubled to 15 per cent and the term 'youth unemployment' began to have some currency. The wage rate is now 40 per cent and youth unemployment is now regarded as the 'single most important social problem of our time'.⁴

In the Sexton Report, 70 per cent of respondents, unprompted, characterized the issue in those terms. Approximately 70 per cent of respondents also said they 'would support the introduction of a youth wage equivalent to the dole or Austudy in return for full-time apprenticeship employment or training'. Among respondents, as an indication of the gravity and familiarity of

the issue, 'youth unemployment is a problem which has directly affected 4 out of every 10 households having 16–24 year old family members in the last 5 years'.

Among the survey target group—people living in the northern and north-eastern suburbs of Adelaide—acquaintance with the realities of our Proportional Rate System was more than merely theoretical. Respondents were well aware that a scheme that locks adult rates and junior rates together is incapable of adapting to contemporary conditions. In the 1970s, for example, an inexperienced school-leaver or job seeker was typically only 16 years of age. Today, that same inexperienced person is more likely to be 18 years old, and the relevant rate is much higher than the rate for a 16-year-old. It is absurd.

Another anomaly inherent in centralized wage-fixing is the preoccupation with ascertaining what constitutes a 'living wage'—a rhetorical construct which ought to be recognized as such. Variations in the cost of living across Australia make it virtually impossible to determine what an appropriate living wage might be. A young person living on a farm in the mid-North of South Australia clearly has a completely different set of circumstances to deal with—and thus different criteria in deciding on what constitutes an adequate income—compared with young people living on their own in the inner-western suburbs of Sydney. That people in different situations need differing amounts of money has nothing intrinsically to do with the employer-employee arrangement. Cost of living adjustments ought to be made through the welfare system—not through an award system.

It is very clear to most of the people who are directly involved that the intangible benefits an employer confers by taking on a young employee are as significant—and probably more profound in their consequences—than the wage transaction itself. Anyone who doubts this greatly underestimates the capacity of young people to understand where their own best interests lie. They can see the benefits of starting on a low wage to learn a trade and there is increasing evidence of their wholly justified resentment of paternalistic state interference which prevents them from receiving those benefits.

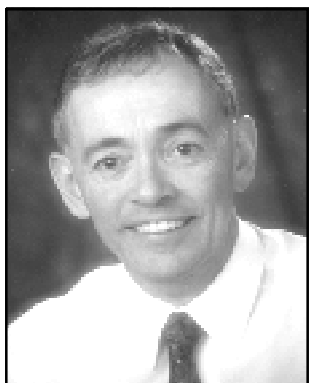
From a young person's perspective, there must be something especially galling and hypocritical about society's

double standards regarding employment. One the one hand, we praise young people who undertake volunteer work. On the other hand, we hold in high regard those who have found employment. Yet woe betide anyone who offers or accepts any arrangement in between. It is a 'no-go' area—although it is self-evidently a fertile field for mutually acceptable and agreeable arrangements between the parties.

It is inconceivable that the present system, with all its inflexibilities, will be allowed to continue indefinitely to exclude so many of our young people from the world of work. Not even the most relentless demonization of the motives of small business employers could achieve that end. The struggle for liberalization of the existing wage regime has echoes of the campaign against slavery, invoking Ernst Howe's description of it as a 'bitter conflict with contemporary sentiment and the interests of gigantic power'. Liberty. Freedom. The long struggle to break the shackles of workplace regulation goes on.

NOTES

- 1 *Sydney Morning Herald*, 'So, Back to the Quack Remedies for Jobs', page 15, 29 October 1998.
- 2 *The 7.30 Report*, 28 February 1997.
- 3 *Checkpoint Charlie*, a submission to the House of Representatives Standing Committee on Youth Unemployment, 1997.
- 4 *Sexton Report*, 1997.



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IPAA

Opinion Polls and Baseball Bats

What Really Went on in the Queensland State Election

CHRIS MITCHELL

IT should tell astute observers much about the divided nature of modern Australia that most of the commentaries about the rise of One Nation and, indeed, almost all the latest tome on the subject (*Two Nations*) have been written by people outside of Queensland—the birthplace of One Nation.

Apart from Nick Rothwell and a couple of other grown-ups, the commentators have almost all got it wrong.

Conservative protest politics has a long history in Queensland. Remember the Labor Split, the Confederate Action Party, the CEC? The interaction of such politics plus an optional preferential voting system with an electorate just as disenchanted with John Howard as it was with Paul Keating, which still had (to quote Wayne Goss) its baseball bat in hand and which saw the 'unread head' Mrs Hanson as an underdog, was always bound to deliver a large amount of support to One Nation, even though most people knew they were voting out of protest.

But what really sealed the June 13 Queensland State election were the campaigns of the governing Coalition parties and the Labor opposition.

The entire thrust of the Government's campaign was negative, with a plea for One Nation preferences. The Borbidge National/Liberal Coalition Government had already accepted—because of its own internal research and the feedback from the wiser heads in the Government—that One Nation had been on a roll since the previous October.

In private conversations, with people as high up as Premier Borbidge himself, many in the Coalition expressed concern at the negativity of the Coali-

tion's campaigning. They felt that theirs had been a service delivery government, with a good record on hospitals and road building and that those messages had been lost in the campaign. They felt the campaign was giving their own base voters permission to lodge a protest so long as they channelled their vote back to the conservatives via their optional second preferences. And once the Liberal Party opted to preference One Nation, small-'l' Libs in Brisbane were always going to repeat their 1989 desertion of the conservatives.

For its part, Labor focused almost entirely on the one line—it was either a stable Beattie government or a rag-tag Coalition government relying on One Nation support. Mr Beattie was on-message throughout the campaign. He spoke of a five per cent unemployment target—which was an intentional dry run for Kim Beazley's subsequent five per cent campaign—and constantly referred to the 'rag-tag Coalition'. Observers of politics in Brisbane will have heard this phrase thousands of times in the two months leading up to the election.

But, beyond that, both sides of politics had internal polling several months ahead of the election showing One Nation at near 30 per cent throughout Central Queensland.

After Premier Borbidge sacked Trevor Perrett—his then Minister for Resources and Primary Industry—for his admission to *The Courier-Mail* that he had carried on a relationship with a murdered prostitute, *The Courier-Mail* polled his seat of Barambah four-and-a-half months before the State election. That poll showed One Nation's Dorothy Pratt at 28 per cent. *The Cou-*

REVIEW

rier-Mail was subsequently leaked internal Labor polling which showed One Nation at near 30 per cent in Wide Bay.

For this reason, the paper decided against State-wide polling in the lead-up to the June 13 election, and concentrated on marginal polling. All up, we published 18 marginal polls and all those in the eventually successful One Nation areas were showing votes of near 30 per cent in the lead-up to the election.

When Premier Borbidge called the election, One Nation's aggregate vote in key marginal seats was 16 per cent, according to internal political tracking polls. The last tracking polls the ALP undertook—on the nights of June 10, 11 and 12—put support for the fledgling party at 18 per cent.

Labor's track illustrates that One Nation's vote was very steady throughout the 26-day campaign, peaking at 20 per cent at the beginning of June and reaching a low point of 14 per cent during the first half of the final week. The polling day jump of One Nation's vote—which rose five points to 23 per cent—was entirely at the expense of the other minor parties—the Greens and the Australian Democrats. The ALP and the Coalition held their final track support on the day. This suggests that, in the last hours, a group of protest voters decided to 'get with the strength' and vote for a real protest party—One Nation—and not a pale imitation. But the point of this polling is that the campaign itself hardly moved One Nation's vote, making a mockery of claims that it was a media-driven phenomenon that saw voters reacting to published poll results.

The One Nation vote recorded by the parties and by news organizations during the campaign was not significantly different from polling undertaken up to nine months before the campaign.

There were some interesting lessons in the final results.

Firstly, metropolitan Brisbane rejected One Nation out of hand. This is largely because metropolitan Brisbane—which is *The Courier-Mail's* major circulation catchment area—had a pretty good idea of exactly what was going on in the State. Those areas outside our catchment area probably did not expect the level of One Nation success eventually achieved. Our editorial writer, Dennis Atkins, former Press Secretary to Wayne Goss, predicted eight One Nation seats. Lord

Mayor Jim Soorley predicted nine a fortnight before the election. A former National Party State Secretary thought One Nation would score in double figures and told me so. There is no substitute for on-the-ground knowledge. Those people who picked the result best were those who'd spent most time actually looking at what was happening in the provincial electorates of Queensland. State-wide polling was useless—because of the very diverse, regionalized nature of the State.

Second, negative advertising has its limits in a compulsory voting system. The exclusively negative advertising of the Coalition played into One Nation's

The exclusively negative advertising of the Coalition played into One Nation's hands

hands. After a single introductory positive commercial, every advertisement the Coalition team put together was an attack—even their single 'issues' ad on law and order was negative against themselves. In the United States, negative advertising is used to drive voters away from the polls; to push down your opponent's numbers in a voluntary voting system. Australia's compulsory voting system means negative advertising often sends the cynical to the 'non-political' candidates, whether they are Greens, Democrats or One Nation. During June, Mr Borbidge, unable to balance the competing demands of his natural constituency (which was breaking off in large lumps) and swinging voters (who were offended by the brazen politicking on preferences) was rattled in his often strident political tone as he pushed One Nation's hot buttons.

Labor played a high stakes game—and actually lost more seats to One Nation than did the conservatives—but still managed to hang on with the support of Independent Peter Wellington. It was risky politics indeed, and it depended on minimizing losses in provincial Queensland and maximizing gains in Brisbane.

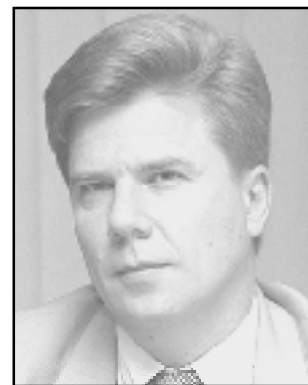
There was undoubtedly an element of anti-media sentiment in the vote for Mrs Hanson's Party. The problem is, many of the commentators who have observed this anti-media sentiment have not really paid attention to how the Queensland media handled Mrs Hanson. They are more familiar with how their own newspapers, radio and television stations treated the One Nation phenomena.

The Courier-Mail tried to address the questions of Hansonism in a rational fashion.

We appealed to Queenslanders to consider the open nature of the Queensland economy, its dependence on services and exports and the benefits that its interaction with the region had had on the Queensland growth rate. We pointed out regularly that we had benefited more than the other States from reductions in tariff barriers and from trade with Japan.

Unfortunately, a fairly misguided anti-racist campaign driven by Mrs Hanson's political opponents played into the hands of people who saw her as articulating their concerns. Undoubtedly, fringe racist elements had attached themselves to One Nation. But, whereas *The Courier-Mail* and the *Australia-Israel Review* actually set about trying to expose those elements, many in the national media were more content to put their hand firmly on their heart and profess that they were indeed better than those displaced Australians who were resorting to the baseball bat of Hansonism.

How sad that so many Australians were held in such contempt by their fellows.



Chris Mitchell is Editor-in-Chief of Queensland Newspapers.

IP A

Xenophobia: The Great Local Content Myths

R.J. STOVE

Recent agitation by Australian media pressure groups over New Zealand content on our TV screens represents a mish-mash of rancorous chauvinism, historical ignorance and double standards.

THE scene: Jacobean England, circa 1610. The place: Ye Olde Worlde Star Chamber, where Ye Olde Worlde Luvvie Lobby Groups are once again in session. The defendant: one William Shakespeare, actor, former poacher, and dramatist, who has been summoned to answer the charges of infringing local content regulations in play after play. Instead of doing the decent thing and sticking to portrayals of the authentic English National Identity, he ransacks writings from Saxo Grammaticus (the 12th-century Danish author who dreamed up *Hamlet's* storyline), Matteo Bandello (the 16th-century Italian responsible for *Romeo and Juliet*), Scottish chroniclers (who gave him the idea for *Macbeth*), Greek chroniclers (*Pericles*, *Timon of Athens*), and even, horror of horrors, France (Joan of Arc swash-buckles onstage in *Henry VI Part I*, where—to add to Shakespeare's 'elitist' sins—she's referred to by her French name of La Pucelle). Incapable of denying these indictments, the Swan of Avon pleads guilty and is sentenced to condign punishment: having to write the next 592 episodes of that classic Jacobean soap, *Ye Olde Worlde EastEnders*.

Does this scenario strike you as far-fetched? It shouldn't. It's no different in principle from, and all too similar in fine detail to, the antics of Australia's True Blue media lobby group. True Blue has been incensed by the High Court's judgement on 28 April, which found that Australia's obligations under the 1988 Closer Economic Relations agreement with New Zealand must take precedence over the Australian *Broadcasting Services Act's* local content requirements.

Certainly True Blue is running scared, as only a special interest group

can—True Blue being an amalgam of the Australian Writers' Guild (which covers authors for TV and the movies), the Screen Producers' Association of Australia (SPAA), the Media Entertainment and Arts Alliance (MEAA), the Australian Film Finance Corporation and the Australian Film Commission. From its plenipotentiaries' rage at the High Court's pronouncement, you'd think that the judges involved had advocated paedophilia or something. (On reflection, you wouldn't: paedophilia advocacy would have been much better received in luvvie milieux.)

The MEAA's representative, actor [sic] Sonia Todd, proclaimed the arrival of 'a black day for the Australian television industry.'¹ True Blue as a whole described the judges' decision as 'a dis-

Shop-steward sentiments which one hoped had been silenced by simple global economic realities have emerged from the swamplands with redoubled punitive strength

aster that would cost the local industry between \$100 and \$150 million,² which lament inspires puzzlement as to when anybody in the Yartz last cared about fiscal prudence. Tom Jeffrey, the SPAA's President, emitted a veritable yelp of Les-Pattersonish existential despair: 'This issue [the judges' finding] goes to

the heart of what we are as a society. It puts under threat our role as Australians, our culture, our history, our traditions.'³ As with so much in modern Australian life (the waterfront above all), so with the True Blue affair: shop-steward sentiments which one hoped had been silenced by simple global economic reality have emerged from the swamplands with redoubled punitive strength, the spectacle suggesting a new *Night of the Living Dead*.

By the bye, if you're wondering when you last heard of Miss Todd and Mr Jeffrey, you're not alone. Save for *Mother and Son's* celebrated jokesmith Geoffrey Atherden—and even he seemed, in *The Age*, to be going through the motions rather than doubled up with righteous anguish⁴—none of the lobbyists quoted were exactly household names, except, perhaps, in their own households. Were Ruth Cracknell or Ron Haddrick to join the barricades, they would deserve a respectful hearing, if no more. But then the leaders in any profession usually have better things to do with themselves than dominate vested-interest quangos. The leaders in any profession can usually get a life.

What exactly is this 'local content requirement' that True Blue is so keen to defend? Clearly a sensitive plant, that will shrivel at even the slightest breath of foreign competition. Well, up to a point, Lord (or Comrade) Copper. As *The Age* pointed out, no less than 55 per cent of televised material between 6 am and midnight on every station is Australian-made already.⁴ (Antipodean newspaper scribes never being reticent about stating the bleeding obvious, *The Age* included such definitions of 'Australian-made' as 'made by Australians'. These Australians can, need one say, be ex-Kiwis: Jane Campion, Sam Neill ...) Stop and think about that statistic:

55 per cent. A 55 per cent market share doesn't strike most people as justification for publicly funded cocooning. If the rest of us could by our own vocational endeavour acquire 55 per cent of any market, ordinary politeness would surely prevent us from shrieking (true) blue murder about any threats—real or fictive—from competitors. But clearly the Yartz apparat has, once again, different notions of politeness from the norm: to say nothing about different notions of economic sanity, the apparat's own economic outlook not having discernibly progressed (or even altered) from what was considered hot stuff on East German factory floors in around 1952.

Every apparat needs a scapegoat; and True Blue's scapegoat is New Zealand, whose success at producing ratings-winners of mythological bent—*Xena*, *Hercules*—is seemingly criminal. We must reluctantly admire True Blue's expertise in having found a Politically Incorrect target to pick on. Had True Blue taken to denouncing China, Japan, Indonesia, Israel or the Arab nations, Canberra-based heavies would have condemned any such adverse criticisms as 'racist'. Even Britain and America are no longer the Aunt Sallies that they were pre-Blair and pre-Clinton. But how many divisions has New Zealand got? How many *people* has New Zealand got? (Fewer than Melbourne, actually.) Moreover, for numerous Australians, New Zealanders fill the same psychic need which Australians themselves fill for numerous Britons. That is, New Zealanders can be publicly humiliated here—as Australians can be by Fleet Street—in terms which, if applied to duskier-skinned and more truculent ethnic minorities, would violate all race-relations statutes. The importance of such a soft target shouldn't be undervalued, given the bile levels which True Blue displays. Conceive of what mischief its motormouths could wreak if they didn't have Kiwis to victimize. There are (ahem) unfortunate 20th-century precedents for the taxpayer-subsidized whipping-up of popular indignation against persons who happen to be of the 'wrong' tribe.

True Blue's propagandists, though, shine less by their mischief than by their ignorance. Someone should gently break the news to Tom Jeffrey, before he treats us to more cant about 'our culture, our history, our traditions,' that

only historical accident prevented Australia and New Zealand from being—to coin a phrase—one nation. (P. P. McGuinness in his newspaper column made this point,⁵ which nonetheless seems to have escaped every other commentator on the judges' ruling.) When Australia's colonies first considered Federation, New Zealand's government wanted to be in on the act. It changed its mind in the 1890s, but that didn't stop our own Constitution's draftsmen from including New Zealand along with

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New South Wales, Victoria, etc., as part of the Commonwealth (see Section 6). Evidently Tom Jeffrey hasn't. Perhaps the ANZ Bank's existence furnishes an equal affront to his rancorously chauvinistic sentiments. With single-issue lobbyists, anything seems possible.

Anything except logic and historical literacy. True Blue wails about Triffid-like invasions of Kiwi product upon our television screens; but it has no qualms whatsoever about facilitating invasions of Australian product upon television screens abroad. (Shades of the US Republican Party's economic doctrine, as noted by British historian Timothy Garton-Ash: an unfettered free market in which, somehow, every American enterprise gets protected.) Additionally, sneers by the nation which produces *Home and Away* at the nation which produces *Xena* are not just dishonest—it's a fair bet that True Blue operatives, for all their nationalist bluster in public, faithfully consumed in private every episode of *Seinfeld*—but artistically dubious.

While *Xena* might not be the 20th century's most edifying creation, it is never the rubbish which so many pseuds

(and even non-pseuds like McGuinness) assert. *Xena's* playfully affectionate treatment of legend rests in the honourable tradition of T. H. White's *The Sword in the Stone*. Its dialogue, like White's, sometimes rises to genuine wit ('I said no copying, Xerox!'). Its periodic hokum is not only deliberate but enjoyable. And in its harmless, intermittently silly but commendably tactful way, it bears messages we can do with hearing afresh: that courage is A Good Thing; that not all the sociologists affixed to all the world's bureaucratic teats can abolish evil; that—to quote Damon Runyon—the race is not always to the swift, nor the battle to the strong, but that is where the smart money is. Compare these implications with the *Weltanschauung* of *South Park*—which could be called bastardized Norman Mailer did it not more closely resemble a doodle-pad belonging to Charles Manson.

Yet *Xena* could be the vilest bilge ever to assail TV-addicted eyes, and still True Blue's performance would be unjustified. One of art's central truths—if we jib at deeming TV 'art,' it isn't particularly clear what else we can deem TV at its best—is this: that no great artist seeks to protect his art through any nationalistic *cordons sanitaires*. First-rate artists, and most second-rate artists, simply don't work that way. However patriotic their philosophies (and no more impassioned patriots than Grieg, Sibelius, Smetana, Tolstoy or Dostoevsky have ever existed, outside lunatic asylums), their mental antennæ are so sensitive to their cultural environments that they freely acknowledge precursors whom they admire, whatever those precursors' habitat. Grieg, whose whole creative life was a hymn—implicitly anti-German at that—to Norway, studied in Germany and revered the great German composers. Tolstoy found in Dickens and Carlyle literary pleasures of a kind that no Russian could replicate. Did all this make Grieg and Tolstoy treasonous? Perhaps True Blue would consider that it did. It's hard to imagine this view being shared by anybody more conversant than is your average True Blue ideologue with a cosmos outside one's own navel.

Besides, when we survey pre-19th-century artists (in whom by definition national consciousness could scarcely be even embryonic), the case for protectionism becomes still more ludicrously

weak. Almost every great artist has been a cosmopolitan, if not in behaviour, then in thought: even, or rather especially, when he has also loved his homeland. Handel, that epitome of Saxon beefiness and English stateliness, spent his formative years in Italy and wrote most of his operas to Italian words. Milton, far from being parochial in his puritanism, rejoiced in his Italian literary forebears. Dr Johnson was entirely conversant in Italian and French. These three could no more have pleased True Blue than Shakespeare could have done.

It was, however, left to a figure of our own century, Richard Strauss, to provide the wittiest and shrewdest refutation of 'local content' bully-boys, wherever they manifest themselves. He did so while assuring his librettist friend Stefan Zweig, a Jew, that he shared Zweig's contempt towards Nazi artistic nationalism. 'For me,' Strauss wrote, 'there are only two types of people, those who have talent and those who haven't ... It's all one to me if they come from China, Upper Bavaria, New Zealand or Berlin. Provided,' he could not resist adding, 'that they've paid full price at the box office.' Such a remark emphasizes anew how long and dusty a road True Blue's functionaries must travel before attaining comparable creative insight. Meanwhile, they might at least stop pretending that wharfie-like job-preservation rorts denote aesthetic virtue. They might even let the rest of us watch *Xena* in peace.

NOTES

- 1 Kelly Burke, 'All black and blue,' *The Sydney Morning Herald*, 29 April 1998, page 15.
- 2 Michael McKinnon, 'Kiwi TV is dinky-di,' *The Advertiser*, 29 April 1998, page 3.
- 3 Burke, *op. cit.*
- 4 Adrian Rollins, 'Industry outrage at NZ ruling,' *The Age*, 29 April 1998, page 3.
- 5 P. P. McGuinness, 'A common market with sunny days and Blue Sky ahead,' *The Sydney Morning Herald*, 30 April 1998, page 19.

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I P A

The 'R' Files

ALAN MORAN

Energy and the Environment: Nuclear Power in Australia

THE CITY OF CHURCHES AS A MARKET FOR A NUCLEAR FACILITY

February of this year marked both the death of Don Dunstan and the letting of a contract by the South Australian Government for a new gas-fuelled power station at Pelican Point. The power station, eventually to reach a capacity 500 MW, is about the minimum size for a commercial nuclear power station. The go-ahead marks a postponement, perhaps an indefinite postponement, of a nuclear power facility in Australia.

Before succumbing to the new Labor orthodoxy of opposition to nuclear power in any form, Don Dunstan was an energetic campaigner for the nuclear industry in his State. With the wave of nostalgia for the dark satanic mills that infected the Labor Party after its disastrous foray into government under Whitlam, his successors barely managed to salvage the building of the world's largest uranium mine at Roxby Downs. Previously, Dunstan had commissioned work which purported to show that a South Australian nuclear industry would create half a million new jobs in the State.

South Australia is the State least favoured by fossil fuels. Its coal is of poor quality and badly located. Its gas is at the State's remote north-east region. Something like one-third of its electricity is already imported from Victoria. Proposals to build another line from NSW were wrecked on the shoals of an electricity regime in the process of shifting from a centrally planned to a market system.

The hard core of electricity supply is best generated by massive stations using coal or nuclear as their fuel. In the eastern Australian States, a newly constructed base-load coal station can gen-



erate at a cost of \$35 to \$40 per megawatt hour. Nuclear costs in France and Canada are at the high end of this. Gas-fired units would be a little more expensive but can be operated to take better advantage of peak-demand requirements.

ADD THE GREENHOUSE FACTOR

The greenhouse juggernaut, commenced with exaggerated estimates of global temperature changes as a result of industrialization and increased affluence. The conferences and resolutions have continued for a decade. Targets have been set, notwithstanding the only reliable measure of global temperature trends, the NASA satellite data, showing obstinately stable temperatures since readings began in 1979.

The most recent major milestone in the saga was the Kyoto Conference in 1997, which set "firm" targets for emission reductions. The targets are illusions because it is inconceivable that the US Congress will endorse any measure with adverse economic impacts. Moreover, developing countries, where most of the growth in emissions will occur, are also adamantly opposed to limiting their emissions to meet any greenhouse targets.

All this said, there are no guarantees that governments won't tilt at the windmill targets. At Kyoto, the Australian Government agreed to limit Australia's growth in emissions to 8 per cent by 2010. The estimated increase

REVIEW

in emissions without such a target would be 36 per cent. Hence, though far in excess of the levels that the environmentalist lobby wanted to foist on us, 8 per cent is not nearly enough to operate on a business-as-usual basis. Energy, and more specifically, electricity is the key to future reductions.

In a statement of 20 November 1997, the Prime Minister encapsulated the latest estimates of where Australia stands. The statement also pointed to proposed market interventions with inevitable consequences for the costs of energy and for energy-using goods.

Conspicuously absent from mention were the two most greenhouse-free sources of energy production: nuclear and hydro.

EFFECT OF A CARBON TAX

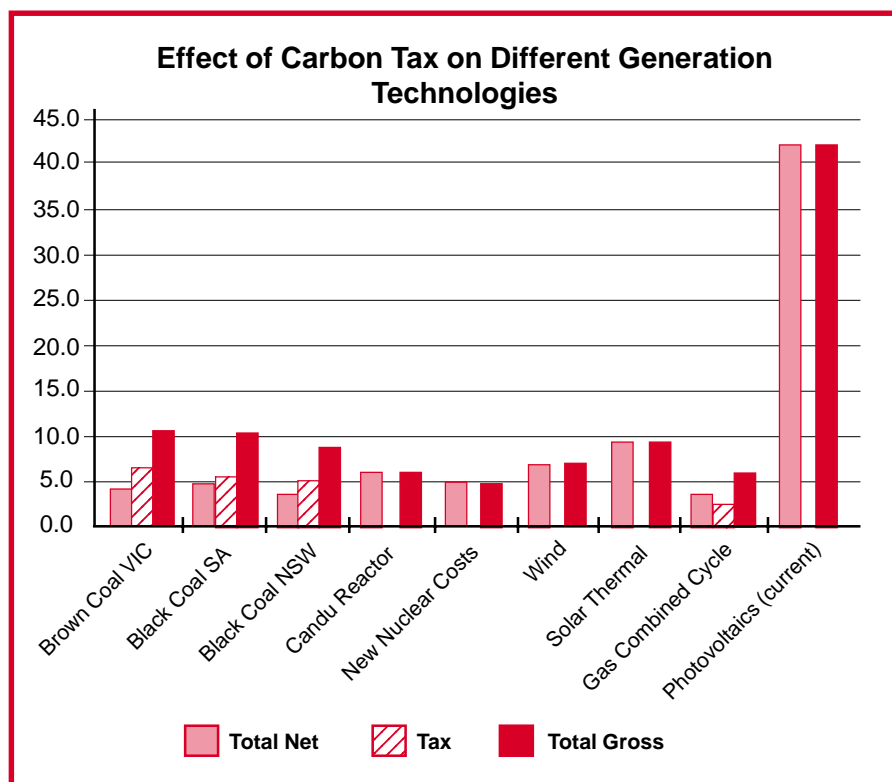
The Australian Bureau of Agricultural and Resource Economics (ABARE) has estimated the tax required to stabilize Australian emissions at the Kyoto level to be US\$34 per tonne of carbon dioxide in 2010. This works out at A\$208 per tonne of carbon.

The tax imposts required to abate Australian carbon dioxide outputs transform the economics of electricity generation. They would more than double the cost of generation and lead to an increase in costs to customers of some 70 per cent. Electricity prices would still be low compared to those in many other countries, but Australia would cease to be the low-cost energy supplier that has attracted many processing industries. Our disadvantage would be compounded to the degree that the developing countries were exempt from the controls.

Serious reductions in greenhouse gas emissions would have a devastating effect on the coal industry including a total eradication of Victoria's brown coal resources (worth at least \$12 billion). Its knock-on effects would also require a massive restructuring away from resource processing. Any emission control measures, while presenting opportunities for some generation sources, would clearly be alien to Australia's national interest.

The following chart measures the cost of electricity generation with a tax set at A\$208 per tonne of carbon.

It is worth noting that even with these taxes, the only exotic fuel that could prove cheaper than coal is wind and the value of wind must be considerably discounted because of its episodic nature—it only works when the ele-



ments are auspicious. And if the public reaction to the visual intrusion of telephone cables is to be a guide, we would soon see massive opposition to wind farms dotting our landscapes.

COAL'S EPILOGUE, NUCLEAR'S RESURGENCE?

Without any greenhouse gas impositions, Australia's abundant and cheaply-mined coal means that nuclear power is viable as a source of electricity only in South Australia. With greenhouse gas taxes (or their equivalence in tradeable emission rights), nuclear would become the lowest cost option.

Much depends on the merits of the greenhouse fear and, more importantly, the Government's reaction to these. With each year that passes, notwithstanding the breathless ABC and SBS propaganda documentaries on climate change that infect our living rooms, the lack of evidence for climate change mounts.

Governments sign solemn treaties. They just as readily break them. The latest example is to be seen in Germany. There, a 50-page agreement to phase out nuclear power between the Greens and Social Democrats is now being trashed. The majority Social Democrats have been mugged by the reality that nuclear produces 30 per cent of the nation's electricity and all other options

are both more expensive and more greenhouse intensive.

We need no reminder in Australia that signing an agreement is different from putting it into practice. An Australian government has previously, with the 1992 Rio Treaty, agreed to reduce emissions of greenhouse gases but found sufficient caveats to avoid doing so.

As for nuclear, this is a source of power that is well-proven, safe and could have a place even in a fossil fuel-rich nation like Australia. Its economics make it the generation source of choice if greenhouse commitments are to be taken seriously. But would any Australian government have the fortitude to withstand the chorus of ill-informed opposition that would inevitably accompany any proposal to build a nuclear power station? Labor remains hostage to its anti-development wing on this issue. The Coalition has also shown little determination to stand up to vocal minorities. And it is certain that the regulatory morass in Australia would be no less onerous than Jane Fonda-inspired US levels—which have lifted new nuclear power station costs in the US beyond the level of competitiveness.

Dr Alan Moran is the Director of the Deregulation Unit within the IPA in Melbourne

IPA

**A MILITARY NETWORK ...**

The Internet is an odd creature. A bastion of individualistic thought and creativity, its parent was the United States Government, in particular its military arm.

With the Cold War seemingly in place forever, and nuclear arsenals aimed both ways, the military was keen to establish a system of communications which could not be destroyed by well-aimed blows at a small number of communication points. ARPAnet was created as a massively redundant system designed on the assumption that many of the communications links between computers would not be working. Instead of computers connecting to a communication system in a structured, hierarchical way, a near-chaotic system of each computer speaking to many other computers was developed.

Naturally such a system is incredibly inefficient. Just as capitalism is incredibly inefficient when compared to the theoretical benefits of a centrally controlled economy. Of course, socialist efficiencies are only achieved if everything works as it is supposed to, and all people are prepared to abandon their individualistic ways.

The real roots of the Internet were established in the late 1970s in the United States, Great Britain and a number of Scandinavian countries as various communications networks internal to universities were linked together. By the early 1980s Australia was joining in.

... DEVELOPING ITS OWN SPONTANEOUS ORDER

Despite sporadic attempts to set standards, the Internet grew furiously in both range and the mechanisms available. In essence, it is a system free of direction and controls. Most modem-equipped computers, regardless of other incompatibilities, were able to gain access to it if someone, somewhere in the world, had implemented the small bit of consistent computer code called TCP/IP for that brand of computer. And if a computer was ca-

pable of being fitted with a modem, someone, somewhere in the world, had indeed provided that little program. And usually provided it for free.

So we had an enormously decentralized community, consisting largely of computer enthusiasts and academics, all joined together by an enormous collection of electronic threads winding arbitrary routes all over the free world. Advances were undirected innovations, usually by individuals working to supply a perceived need, offering their solutions, with the results filtered through the usual Darwinian mechanism of survival of the fittest.

Standards have indeed developed, but like dictionaries for the English language, they lag behind the state of the art and tend merely to describe what has survived through broad acceptance and usage.

As a result, the Internet is a contemporary example, compressed in time-scale, of what Hayek called the 'Spontaneous Order'. Without any individual or group providing oversight, the Internet has proven itself



capable of meeting a wide range of needs, even effectively absorbing within it such valiant attempts at planned proprietary networks as CompuServe and the Microsoft Network.

BEFORE THE WEB

The World Wide Web is the best thing that has happened to the Internet for the simple reason that it has brought the Internet out of the world of enthusiasts and academics,

and made it useable for everyone else. By increasing the market, it has made its commercialization possible.

Commercialization is, of course,



deployed by some of the pioneers and early adopters, and their hostility to 'newbies' is often little disguised. But while many people created spider-like motor cars at the end of the 19th century and the early years of this century, it was the Henry Fords and other commercially minded makers who created the motor car age. So, with the Internet, it is the commercial providers, determined to gain market share and profits, who will take the whole system to higher levels of accessibility and usefulness.

Still, the Web is new, effectively starting in 1993. Even before this, an Internet-based broadcasting and publication system was in place. Called UseNet or Newsgroups, it continues to thrive as a place for interactive discussion.

NEWSGROUPS

UseNet is a text-based system that offers enormous resources for any person with an interest in anything at all. It is essentially a discussion system, but is public rather than private. It looks like email, but operates on an entirely different system.

Let us look briefly at electronic mail. For most of us it works like this. You write something on your computer. You press the 'send' button and your computer connects to your



Internet Service Provider's (ISP's) computer. Your message is uploaded to that computer. It is directed to the ISP of the person to whom you want the message to be delivered. That person will sooner or later connect to their ISP and download your message.

How the message gets from your ISP to the other ISP is where the term 'massively redundant' comes into play. It may well go by the most circuitous route imaginable. A message from me in Canberra to the editor in Melbourne may travel straight down the Hume Highway, or it may go via Brisbane, or Helsinki, depending upon the links that happen to be available at the time. Any email message may travel through several computers during its transit. But its passage is fleeting, and a copy of the message is generally not left behind in those computers.

Newsgroups are different in that news server computers, many thousands of them around the world, hold copies of all the messages 'posted' to a Newsgroup. If I want to sell something, I can write a little note about it and post it on **aus.ads.forsale**. That will sit on my ISP's news server. But this news server is connected to a number of others, with which it automatically exchanges information from time to time. They in turn automatically update others.

Through such automatic communications, my message will, within a day, ripple across the world to be available to all Internet users whose ISP provides access to **aus.ads.forsale**.

There is a process called 'subscription'. But this is not like a magazine subscription. When a user subscribes to a Newsgroup, he or she is not telling the Newsgroup to send anything. Instead the user is merely instructing the program on his or her computer, the Newsgroup reader, to check that Newsgroup from time to time for any new messages.

INFORMATION OVERLOAD

Why not check them all? Because,

when I last updated the Newsgroup list from my ISP, I discovered that it provides 23,870 different ones!

Internet Service Providers can choose which Newsgroups they will make available to their customers. This allows them to avoid carrying groups concerned with child-sex and the like.

You need a Newsgroup reader to access Newsgroups. The major Web browsers (Netscape Navigator and Microsoft Internet Explorer) include useable readers as part of the package. Or you can use a specialist Newsgroup 'client', such as Forté Agent. The client will need to be configured with the address of a news server. This information will be available from your ISP. Then you need to start up the program, connect to the Internet, and download the list of available Newsgroups. This will take several minutes.

When you have the list on your computer, you can use the reader's search facility to look for key words



of interest in the titles, such as 'economics', 'philosophy' or 'politics' (or, for that matter, 'heinlein'—yes, there is an **alt.fan.heinlein**). Also 'objectivism' or 'socialism' or 'marx' (but no 'capitalism').

Then click the 'subscribe' button for the groups that look to be of interest, log on again and download the titles of those groups. You can then choose which messages to download. It is unlikely, except for a few very low volume groups, that you will decide to download all the text of all the messages automatically. There is sim-

ply far too much to read.

As with all discussion groups, it's wise to sit around and watch the interplay for a week or so before par-



ticipating yourself. Each is like a little community, with its own trouble makers and social mores, and some participants can get rather cranky with those they consider to be wasting the group's time or 'bandwidth'.

Good starting places are **alt.politics.economics**, **aus.politics**, or **alt.politics.libertarian**. As with every other aspect of the Internet, expect a good deal of chaff with the grain.

Because of the volume of information, it is the rare ISP that allows a message on a Newsgroup to last more than week. But the purging that is done by ISPs does not mean that Newsgroup history is lost forever. At least one Web site keeps an archive of most Newsgroups. You can conduct full text searches to find obscurely titled groups that may have just the information you are after. Go to:

<http://www.dejanews.com>

A SHORTCUT

All these sites may be accessed from links on my own web page. Go to:

<http://www.ozemail.com.au/~scdawson>

Unfortunately I'm not omniscient, so let me know about other great sites by writing to me at:

scdawson@iname.com

Labor's Class of '98

GARY JOHNS

More than a quarter of the Federal ALP Caucus are new members. What does this mean for the alternative government?

THE October 1998 election delivered 29 new recruits to Labor's 95-member Caucus. Is it a new guard or the old one in new clothes? Of the 29, eighteen captured seats from the Coalition. These are the people who are cheered loudest in the party room at the commencement of the new Parliament. After all, government is only won by taking seats from the other side. Four of these were returnees: Horne (Paterson, NSW) Sciacca and Swan (Bowman and Lillee, Queensland) and Snowdon (NT).

Some of the freshers already have form: Cheryl Kernot (Dickson, Queensland) of course courtesy of some late postal votes from holidaying teachers; David Cox (Kingston, SA) a Gordon Bilney protégé and veteran adviser to Labor, especially Ralph Willis; Graham Edwards (Cowan, WA) Vietnam veteran and former State minister; and Kevin Rudd (Griffith, Queensland) former senior diplomat and confidante of Wayne Goss. Kernot has shot straight to the front bench, and Rudd to the chair of the Caucus National Security and Trade Committee—a position for which he is eminently suited. Rudd understands the game, his opening line in his first speech to the Parliament reads: 'Politics is about power ...' He acknowledged the support of Swan, Sciacca and Senator John Hogg—all AWU—despite the fact that he is Labor Unity. It was just a simple matter of geography. He relied on preselection numbers in Ben Humphrey's old base and the best way to acquire them was to join the faction!

The real interest lies with the remainder, those who replaced retired Labor members. More muted cheers in Caucus for this lot, but these will be the stayers, holding seats that survived the Keating rout of 1996. Except, that is, for trade union official Bernie Rippoll in Oxley—Pauline Hanson's abandoned seat, but unlikely to be let loose from Labor's clutches in the foreseeable future ...

Of the eleven safe seats, including two new Senators from Queensland who take up their seats next July, ten were held by men. No fewer than seven of the replacements are women. This is a remarkable

change. One was even selected under a party rule which weighted her vote by 20 per cent. Kelly Hoare, daughter of Bob Brown (Labor's, not the Green), won preselection by 1.2 votes! The eleven retirees were senior members of Caucus, fully eight had served as ministers and three of these were Cabinet ministers: Peter Baldwin, Peter Morris and Ralph Willis.

Factionally, the ground has continued to shift under the independents, who are barely hanging on. Barry Jones's replacement is Julia Gillard (Left) and Peter Morris's, Jill Hall (Left). Nevertheless, Kelly Hoare remains staunchly independent and Cheryl Kernot claims to be independent—though her ideological home is with the Left, who tried very hard to find her a 'real' seat in NSW. In fact the last Labor incumbent for Dickson was Michael Lavarch (AWU) and Cheryl has an AWU minder on her staff. The remainder are factional replacements, Michael Danby for Clyde Holding (Right), Craig Emerson for David Beddall (AWU), Julia Irwin for Ted Grace (Right), Tanya Plibersek for Peter Baldwin (Left), Bernie Ripoll for Les Scott (AWU) and Nicola Roxon for Ralph Willis (Right). The gender may change but the faction does not!

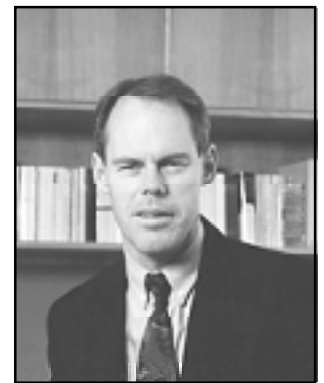
In the Senate, Joe Ludwig—heir to the Bill Ludwig AWU throne—replaces Mal Colston (it now becomes clear why Colston was allowed to warm the seat for so long!), and Jan McLucas replaces Margaret Reynolds (Left).

The same generally holds true for those who won seats from the Coalition.

Roxon's (Gellibrand) party background is impeccable. She was an industrial lawyer with Maurice Blackburn & Co., the firm in which John Button was a senior partner, the famous Maurice Blackburn who modified the party's socialist objective in 1921. Prior to that she was an industrial officer with the National Union of Workers (the old Storeman and Packers, more affectionately known as the 'stackers and wackers') the former leader of which was Simon Crean. Roxon is a strong advocate of greater access to the legal system, but makes the mistake of many lawyers—equating access to the law with justice.

Just across the electoral boundary lies a new colleague, Julia Gillard in Lalor, another industrial lawyer, this time on the left of the party, a follower of Martin Ferguson and devotee of Joan Kirner. She is joined by Tanya Plibersek, a Senator George Campbell staffer, who spent most of her first speech saying she was sorry to the Eora Aboriginal people on whose 'stolen land' Sydney is built, and for good measure the 'Stolen Generation.' Another left-winger is Jill Hall (Shortland), backed by the CFMEU and the Maritime Union, whose preselection numbers were so strong she was unopposed. She has been quick off the mark and chairs the Caucus committee on Government Service Delivery. Finally, Julia Irwin, a 32-year veteran of the Party, who worked for members Dick Klugman and Ross Free as well as her predecessor Ted Grace, is a fan of the last of the 'Labor Mates', Laurie Brereton and Leo McLeay.

Queensland Labor was not so adventurous, the only woman apart from McLucas was Kirsten Livermore, another left lawyer, in Keith Wright's old seat of Capricornia. The newcomer very quick off the mark is Dr Craig Emerson, former tax specialist in the Commonwealth Treasury, staffer to Hawke and head of Environment under Goss. He chairs the Caucus Living Standards and Development Committee, again a strong appointment. He is close to Bill Ludwig and will catch up with, if not overtake, his more senior Queensland rivals Sciacca and Swan pretty quickly.



Gary Johns is a Senior Fellow with the IPA.

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REVIEW

Black and White

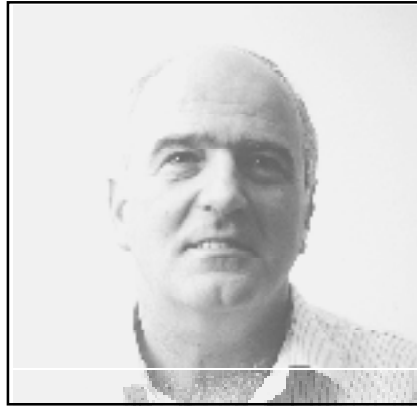
RON BRUNTON

Who Speaks for Australia?

MR Howard's election-night announcement that he would make Aboriginal reconciliation a priority, and his subsequent acceptance that reconciliation would also involve a formal document, holds many risks. One hopes that he has thought everything through, although past experience suggests that this might be too optimistic a hope. Certainly, in his first term of office, there were few indications that Mr Howard was preparing the ground for what he is now proposing. But having made a commitment to producing a reconciliation document by May 2000, Mr Howard has placed his government in a pressure cooker in which most of the heat is controlled by people who have little sympathy for the Coalition.

Given the strange potency of Aboriginal issues for influential sections of the educated middle class, a reconciliation document will be a quintessential symbolic statement, even more central to their psyche than the issue of the republic. Its wording is certain to be highly contentious. But if it is to form a constructive and harmonious basis for the future development of the nation, the document must undermine any arguments for Aboriginal separatism or special indigenous rights not available to other Australians. And it cannot be something which might open up avenues for future litigation.

The touchstone for the suitability of a reconciliation document must be whether mainstream Australians, both white and black, are happy to endorse it, not whether the Aboriginal industry and its supporters in the media, universities and churches find it acceptable. But with the Liberals' general ineptitude on cultural/symbolic matters, the Government could easily be out-manoeuvred into adopting a document that displeases most Australians, and which does nothing for reconciliation, however that vague concept might be interpreted.



The Government's vulnerability to being wrong-footed on this issue is increased by the political circumstances it faces in the Senate after 30 June, with the Democrats holding the balance of power. With Aden Ridgeway, former Executive Director of the NSW Aboriginal Land Council as part of their line-up, the Democrats are likely to take an even more active role on Aboriginal issues than in the past. Although Senator-elect Ridgeway is a moderate who accepts that reconciliation is a two-way street, the outcome of the conflicting pressures that he will face make it more likely that both he and his party will push for a position involving considerably greater concessions to the Aboriginal industry than what the Government presently envisages.

The constituency supporting Aboriginal identity politics is far less diffuse and timid than the constituency favouring an inclusive approach which would transcend the injustices of the past without enshrining victimhood. So it is hard to feel confident that the Government will have the backbone to resist deals with the Democrats which would promise easier passage of other legislation and the kind of 'warm inner glow' that galvanizes the *café latte* set, whatever long-term dangers these deals may pose for national integrity.

Just before the October election, Mr Howard commented that those who denounced him and his government for supposedly being divisive simply could not accept that there might be principled conservative positions on indig-

enous and other social and cultural issues. His complaint was justified. But at least part of the reason lies in the Liberals' failure to articulate an intelligent and morally defensible alternative to the prevailing leftist wisdom on these issues.

It is not enough to tell Australians that Liberals are committed to mateship, egalitarianism and tolerance, or to emphasize the need for practical efforts to address Aboriginal disadvantage, as important as all these may be. It is necessary to spell out a coherent philosophical framework that is consistent with the mainstream Australian values that Liberals claim to endorse, and to explain how this framework leads to courses of action that offer a realistic hope of resolving those issues that divide Aborigines and non-Aborigines. It is also necessary to actively seek out and promote Aborigines who are similarly committed to such an approach, and who dislike the existing Aboriginal industry. But this would require a degree of intellectual imagination, moral assurance and capacity for social and cultural analysis that the Liberal Party does not seem to possess.

Ever since all Aborigines gained full citizenship irrespective of their mode of life, the Australian Government represents *all* Australians, and not just those of non-Aboriginal descent. Mr Howard rightly insists that the starting point for any reconciliation document must be the indivisibility of the nation. But the very process of creating and enshrining such a document could tend to act against such an insistence, especially if the demands of the Aboriginal industry are heeded. If we must have a document of reconciliation, it should be forcefully phrased to make it clear that indigenous or non-indigenous identities are *completely irrelevant* for being Australian and that it has been the failure to make these identities irrelevant that has bedevilled the nation from its beginnings. This failure is the fountainhead for all the injustices for which Aborigines now seek apologies.

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I P A

Letter from London

JOHN NURICK

Welfare reform? What welfare reform?

TONY Blair's first action on welfare reform, immediately after the 1997 election, was to appoint Frank Field Minister of State in the Department of Social Security with special responsibility for welfare reform, telling him, in as many words, to 'think the unthinkable'. (A big department such as the DSS has several ministers: a Secretary of State, a Minister of State, and three Parliamentary Under-Secretaries.) It was hard to imagine a much clearer signal that the new government was serious about tackling the welfare monster. For an Australian parallel, imagine Bert Kelly or John Hyde being put in charge of trade and industry policy.

A long-serving and independent-minded Labour backbencher, Frank Field had specialized in welfare policy. He consistently argued against the culture of dependency that the welfare state was creating, and believed that the welfare system should promote individual responsibility and self-reliance. During Labour's far-left wilderness years in the 1980s and early '90s, these views meant he was isolated and often reviled within the party.

With the dramatic changes in Labour policy under Tony Blair, not only did his views become acceptable, but his understanding of welfare policy was recognized—or so it appeared from this appointment—as a key asset.

In due course, the Government published Mr Field's Green Paper on welfare reform.¹ The introduction, signed by Tony Blair, described the Government's aim as rebuilding the system 'around work and security. Work for those who can; security for those who cannot.'

The Green Paper began by listing 'three key problems with the existing system'. Inequality and social exclusion are worsening even though welfare



spending is increasing. The system acts in many ways to discourage people from seeking work. Fraudulent claims reduce the amount of money that goes to those genuinely in need. The system started with the 'most noble' aims, but it

has failed to keep pace with profound economic, social and political changes. The machinery of welfare has the air of yesteryear ... It often fails to offer the kind of support needed in today's world. It chains people to passive dependency instead of helping them to realise their full potential.

There are three possible 'futures' for the welfare system. The Green Paper rejected the first two more or less out of hand:

- *privatized*, as a 'residual safety net for the poorest and most marginalised';
- 'the *status quo* but with more generous and costly benefits'; or
- a *third way*—'promoting opportunity instead of dependence, with the welfare state for the broad mass of people, but in new ways to fit the modern world.'

The third way would lead to a welfare system that was 'pro-active, preventing poverty by ensuring that people have the right education, training and support. We will widen the exits from welfare dependency by offering tailor-made help for individuals.' Such a welfare system would be guided by 'eight key principles' towards a 'new welfare contract' (see sidebars). Commendably, each chapter of the Green Paper sets out 'success measures to be achieved over the

next 10 to 20 years'. These are not always very ambitious, but they are a good deal better than nothing. For instance, the chapter entitled *The Importance of Work* ends with these success measures:

Eight key principles will guide our welfare reform programme

- 1 The new welfare state should help and encourage people of working age to work where they are capable of doing so.
- 2 The public and private sectors should work in partnership to ensure that, wherever possible, people are insured against foreseeable risks and make provision for their retirement.
- 3 The new welfare state should provide public services of high quality to the whole community, as well as cash benefits.
- 4 Those who are disabled should get the support they need to lead a fulfilling life with dignity.
- 5 The system should support families and children, as well as tackling the scourge of child poverty.
- 6 There should be specific action to attack social exclusion and help those in poverty.
- 7 The system should encourage openness and honesty and the gateways to benefit should be clear and enforceable.
- 8 The system of delivering modern welfare should be flexible, efficient and easy for people to use.

The Government is determined to put these principles into action and be held to account.

- A reduction in the proportion of working age people living in work-less households.
- A reduction in the proportion of working age people out of work for more than two years.
- An increase in the number of working age people in work.
- An increase in the proportion of lone parents, people with a long-term illness and disabled people of working age in touch with the labour market.

The Green Paper was published in March this year. Closing date for responses was 31 July—but by then, the wheels had fallen off.

As I said, Frank Field was number two in the Department of Social Security. As his Secretary of State, Mr Blair appointed Harriet Harman, a dedicated Blairite with the front-bench experience, media-friendliness and high public profile that Mr Field lacked. Even at the time there were doubts as to whether Ms Harman—not the cleverest of politicians—had the intellectual capacity and drive to master a huge and difficult department, let alone to juggle successfully what were bound to be the irconcilable demands of Treasury, of Sir Humphrey, and of Mr Field and his thoughts of the unthinkable.

And so it turned out. Harman's po-

litical and presentational skills proved much less sure than advertised, and Field did not manage to conceal all his frustration at being stuck in a non-executive position beneath a Secretary of State he could think rings round. As the *Daily Telegraph* put it in its reporting of the July Cabinet reshuffle, 'she soon came to regard him as an unreliable maverick with his eyes on her job, while he despised her political cowardice and lack of brainpower'.²

In the reshuffle, both lost their jobs. Ms Harman was sacked. Mr Field resigned when Mr Blair would not give him the job he wanted, Secretary of State for Social Security. What followed demonstrated some very depressing things about Mr Blair and his government.

Mr Field used his right to make a resignation statement in the Commons, despite pressure from the Labour machine not to do so. As he was called by the Speaker after Prime Minister's Questions on 29 July, Mr Blair walked out of the chamber, a studied discourtesy.

Mr Field denied rumours that Mr Blair had vetoed early drafts of the Green Paper as 'too radical'. With traditional indirection, however, he confirmed reports that his bolder plans had been frustrated by the Chancellor of the

Exchequer, Gordon Brown, and accused colleagues of not supporting him:

If the past 15 months have taught me anything, it is not only that the biggest of all reforms requires an executive position for a person with convictions about welfare reform, but that the entire Cabinet, especially the Chancellor, shares beliefs about that common endeavour.³

The Labour machine promptly set about vilifying and discrediting Mr Field. Field, in an ill-judged series of interviews, accused Ms Harman of having blocked his reform proposals. The new Social Security Secretary, Alistair Darling, went out of his way to suggest that Mr Field's ideas were hopelessly impractical. Labour spin-doctors cast such aspersions on Mr Field that one began to wonder why on earth Mr Blair had ever given him a job in the first place.

Aha! Tory columnists said, it was all PR: appointing Field was the perfect signal that Labour was serious about welfare reform, but it was all signal, no substance. No, no, Mr Darling said. The time for words was past, now it was time for action. 'We now need to implement our programmes so that people can see a real difference.'

Well, we shall see. In his previous position as a junior Treasury minister, Mr Darling proved able and effective—but what comes next in welfare reform is in fact more words, more consultation in the form of a Green Paper on pensions expected this autumn. In the meantime, the whole episode has strengthened the general impression that the Blair Government doesn't know where it is going or how to get there, and doesn't much care provided it can win the next election.

NOTES

- 1 *New ambitions for our country: A new contract for welfare*, Cm 3805. Readable on the Web at <http://www.dss.gov.uk/hq/wreform/gpintro.htm>, or download in PDF format from <http://www.dss.gov.uk/hq/wreform/pdfintro.htm>.
- 2 Robert Shrimmsley, 'Double act who couldn't work with each other', *Daily Telegraph*, 28 July 1998.
- 3 Hansard, 29 July 1998, Col. 374.

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I P A

Towards a New Welfare Contract

Duty of Government:

- Provide people with the assistance they need to find work..
- Make work pay.
- Support those unable to work so that they can lead a life of dignity and security.
- Assist parents with the cost of raising their children.
- Regulate effectively so that people can be confident that private pensions and insurance products are secure.
- Relieve poverty in old age where savings are inadequate.
- Devise a system that is transparent and open and gets money to those in need.

Duty of Individual:

- Seek training or work where able to do so.
- Take up the opportunity to be independent if able to do so.
- Give support, financial or otherwise, to their children and other family members.
- Save for retirement where possible.
- Not to defraud the taxpayer.

Duty of us all:

To help all individuals and families to realise their full potential and live a dignified life, by promoting economic independence through work, by relieving poverty where it cannot be prevented and by building a strong and cohesive society where rights are matched by responsibilities.

Compiled by Andrew McIntyre, Mike Nahan and Michael Warby

PINOCHET

The arrest of Senator Augusto Pinochet in Britain, to the great excitement and satisfaction of the Allende groupies in the Blair Government, has brought into focus once again how much the mainstream media has a particular brand of selective morality in its inability to discuss complex issues. Press reports here vividly brought us back to the time of Allende, who, if we are to believe our journalists' notions of history, was a democratic hero, brutally overthrown for trying to be fair-minded and just to the people of Chile. But where do we read the other version of events? Some, heaven forbid, thought Allende was a hard-headed Marxist, who was intent on destroying Chile's constitution and economy, and imposing a Cuban-style totalitarian state. Pinochet and the other generals only agreed to act against him, so the other story goes, when they had irrefutable proof that communists were moving to take over Chile, Allende having allowed in about 14,000 foreigners—including hardline Spanish and Portuguese communists, Soviet and Czech experts in subversion, North Korean specialists in weapons training and terrorism and an invitation for Cuban DGI agents to organize Chile's security along the lines of Castro's secret police. Even Chile's Supreme Court and Parliament ruled that the Allende Government was repeatedly violating the Chilean constitution. Even more confusingly, Dictator Pinochet got a higher 'yes' vote for continued rule in the free vote he called—and which he lost and so stepped down—than Allende had been elected President on. All a bit too hard for the simple-minded moralists of the press.

THINGS ARE REALLY HOTTING UP

A relatively cool and stable climate descended on our local press over the last few months on matters environmental after the excitement of the signing of the Kyoto protocols. Even

the ABC put on a two-part series, *Against Nature*, bringing some surprising balance on these issues. As predictable as a summer heatwave, however, there has been a sudden increase in temperature, brought on this time by November's Fourth Meeting of the Conference of the Parties to the Framework Convention on Climate Change in Buenos Aires. Britain's Hadley Centre for Climate Change has surpassed itself in the catastrophism stakes, claiming that 'parts of the Amazon rain forest will be turned into desert by 2050, threatening the world with an unstoppable greenhouse effect with land temperatures rising 6 degrees by the end of the next century. The consequences are so terrifying, I will skip the details here.' How on Earth does this crystal-ball gazing work? The secret, apparently, is billions of calculations made by the world's biggest super-computer. But aren't they the same calculations that scientists have been making for around 20 years, which, from time to time, need 'readjusting' to better fit reality? Professor Pat Michaels, a senior fellow in environmental studies at the Cato Institute, puts it rather bluntly. 'Forget the notion that scientific truth has anything to do with [these computer models]... People are beginning to realize that the new, improved versions are making such fundamental errors as to make us wonder what scientists really do all day... [A]ll of the warming in the free atmosphere over the last 40 years occurred in one gulp 22 years ago. That hiccup was so slight that no one noticed it until two decades later.' When Professor Michaels put some of these disappointing facts to senior staff of the Argentine Senate—the hosts of the present United Nations confab, and beneficiaries of considerable greenhouse-related Washington largesse—the chief of staff of a key Senator told Michaels, 'Look, the science doesn't matter. I don't care if it's cooling or warming. You have money, and we need it, and we'll do what you say.'

AS THEY SAY, 'AND FURTHERMORE ...'

David Ridenour of the National Center for Public Policy Research in the US has calculated that about 7 million litres of jet fuel will be burned by the 9000 environmentalists, journalists, delegates and observers travelling an average of 12,000 miles to Buenos Aires and back on a Boeing 747. This does not include taxis, lighting, air conditioning and other consumption once they are at the conference. If they put an end to inevitably useless multi-million-dollar junkets like this one, as Ridenour comments, 'greenhouse gases won't be the only hot air curbed'.

STUDENT NEWSPAPERS (OR WHERE IT ALL COMES FROM)

It is no news to say that university student newspapers tend to be on the radical side, and that they are training grounds for the next generation of journalists and politicians. *Farrago* at Melbourne University is periodically under attack from its own students for being, well, just too much of the one thing. In its last edition for 1998, under the heading '*farrago* sucks!!', it was reported that 7000 people took to the streets to register their disappointment with it. With self-righteous irony, the editors asked, 'you be the judge, is *farrago* full of crap?', and provide a handy guide to its contents; 'terror in small town Melbourne (some dyke trying to act the victim), cloud over the rainbow nation (some socialist trying to make a point about South Africa), cool stuff around town (the editors trying to be cooler than thou), games, films, music & theatre reviews (the editors friends who scammed freebies, tossing off about art and shit).' The outgoing *Farrago* editors commented, 'we don't really give a f... We had fun and all our friends got heaps of stuff published.' Well, not to draw too long a bow, doesn't it all sound like a younger, more honest version of our national broadsheets and the attitude of some of our senior journalists?

THE PRICE OF PRINCIPLE

The ALP, Greens and no-pokies coalition have blocked the privatization of South Australia's electricity. So the Government is to go ahead with a 99-year lease of the assets. The difference between a sale and a 99-year lease? Nothing, except a price discount that leaves the South Australian citizens some \$200 million worse off.

And now selections from one fortnight of US papers (courtesy of *Slate e-zine*) ...

FUR SENSITIVE

The *Los Angeles Times* (4 February 1999) reports that the City of Beverly Hills may be about to implement an unprecedented consumer notification procedure relating to one of the town's most cherished substances: fur. The city council has, says the *Times*, agreed to hold a special election on requiring all local furriers to put warning tags on their garments that would read: 'This product is made with fur from animals that may have been killed by electrocution, gassing, neck breaking, poisoning, clubbing, stomping, or drowning and may have been trapped in steel-jaw, leg-hold traps.' The story includes far more detail about methods of extinguishing life than any of the stories about the anti-abortion Website recently ruled not to be protected by US constitutional protections of free speech.

FEAR ITSELF

The millennium bug essentially comes from programs being originally written for computers with far less capacity—hence having only two fields for year, for example. The *New York Times* (9 February 1999) reported on concerns that the social ill effects of fearing the Y2K problem—such as bank runs, hoarding of food and gas, fires caused by newly acquired wood stoves and a rise in gun violence accompanying the upsurge in gun sales to those fearing post-millennial-bug civil un-

rest—could end up being much worse than any pure outcome of the problem itself, especially since the actual problem is being attacked with billions of dollars of remediation. The same day, the *Wall Street Journal* reported that not all of the hoarding will be done by guys in Montana cabins either. It turns out that in anticipation of possible Y2K-driven supply interrupts, companies like Xerox are planning to take on more inventory than usual in the last part of 1999. Which is driving a search for extra warehouse space and could even affect GNP.

And wait, that doesn't include the 1.999K problem! It seems that certain older software systems use "9999" to signal an error or the end of the program. Which means September 9, 1999 may be a bit of a glitchfest. There are, says the *Journal*, nine such problematic dates this year.

EDUCATION REALLY IS GOOD FOR YOU!

The *Washington Post* (10 February 1999) reported on results of the first study to cover the full range of sexual problems since the Kinsey Reports of 50 years ago. The results show that four out of ten women and nearly one-third of men suffer from sexual dysfunction. The authors of the study say this is a 'significant public health concern'. There is at least one hopeful finding though: college-educated women are more than twice as likely not to suffer from lack of sexual desire as those who did not complete high school, and men who complete college also tend to complete something else, suffering much less premature ejaculation than male high school dropouts. This data could surely be the basis of the best stay-in-school ad campaign of all time.

THAT WAS CLOSE, BUT THINGS STILL A WORRY

A report in the *Washington Post* (10 February 1999) revealed the deterioration of Russia's early warning defence against nuclear missile attack, which has gotten to the point that, for several hours each day, Russian military commanders cannot see any of the

thousands of land- and sub-based missiles aimed at them. The upshot is a much increased risk that the Russians would make a 'serious miscalculation' (tech-speak for 'accidentally blow the world up'.) The paper included an interview with the former Russian officer who decided on a hunch that an apparent September 1983 American ICBM attack was a false alarm and so didn't start World War III. Good of him.

CLONING BILL? (GATES NOT CLINTON)

The *Washington Post* (15 February 1999) reported that the US Government's discussions about what sort of remedies to ask for if Microsoft is found in serious violation of antitrust law have become more detailed recently because prosecutors feel the company is stumbling in its court defence. A forced break-up is currently envisioned by the Government as coming in two flavours: 1) carve Microsoft into one company that sells only the Windows™ operating system and one that would sell other Microsoft software products; or 2) split the company into two or more nearly identical units. The big question is whether such moves would really create new competition. And which company would get Bill Gates? A problem that could be avoided if cloning technology continues to pick up speed ...

WELL-SUPERVISED DEADWOOD

A reader's letter to the *Washington Post* (16 February 1999) noticed something telling in a previous *Post* story about 'deadwood' federal employees. The story had mentioned that in its effort better to understand the problem, the US Government's Office of Personnel Management had 'interviewed 200 supervisors who directly managed 3,114 employees. Of that total, 429 were supervisors themselves.' In other words, notes the reader, 629 supervisors in the sample were directing the work of 2,685 nonsupervisory workers, which translates to one manager for every 4.3 employees.

Codes of Conduct Are Good for NGOs Too

ANTHONY ADAIR

Those who seek improvement in others should remember that sauce for the goose is sauce for the gander.

THE defensive nature of the response in the *Melbourne Age* (18 August 1998) by the Executive Director of the Australian Council for Overseas Aid (ACFOA) to my article about Codes of Conduct for Non-Government Organizations (*IPA Review*, May 1998) suggests that a sensitive nerve was struck.

When the integrity and credibility of an organization are under challenge, the organization has to *demonstrate by its actions* that it continues to be worthy of public support. It is not enough to proclaim your innocence and your virtue.

NGOs, no less than commercial enterprises, have to earn their role in society.

THE CREDIBILITY GAP FOR NGOS

In recent years, NGOs have carved out for themselves an increasingly prominent role in the formulation of public policy at both the national and international level. Perhaps the most notable has been their role in efforts by the United Nations to establish global responses to perceived environmental problems such as global warming, hazardous waste disposal and the use of dangerous chemicals. They see themselves as champions of the public good, with a mission to reverse much of the physical, environmental and social harm done in the world because of the failings of governments, corporations and the professions.

Much of the domestic legislation in Western democratic countries regulating the conduct of business has come about as a result of political campaigns by well-organized, energetic, clever and well-funded private organizations which claim to represent the wider public interest. While many have questioned both the scientific validity and the long-term consequences of the problems identified and the solutions proposed by

such groups, few have questioned their motivation or their desire to bring about what they regard as worthwhile solutions to potentially serious problems.

In today's politics, however, the key mantra is 'consultation with stakeholders'. The word stakeholder originally meant those with a *direct* interest in the subject under discussion e.g. the owners, employees, customers and neighbours of an industrial plant. Today the word is very loosely defined as any person or organization which claims to have an interest, no matter how remote.

Therefore in a world of 'stakeholder power'—where media coverage is often the principal way to raise political

Skilful, well-organized NGOs are well placed to have a powerful role in determining public policy and influencing political decision-making

awareness and invite action—skilful, well-organized NGOs are well placed to have a powerful role in determining public policy and influencing political decision-making.

Inevitably, as a reaction to the perceived power of NGOs, their opponents or 'victims' will respond by placing these organizations under intense scrutiny, searching for any flaws or weakness in their structures and behaviour in order to limit or damage their credibility.

At the same time, legitimate concerns have been raised about the secrecy, sources and application of funds, man-

agement procedures and practices, corporate governance and lack of democratic processes within some prominent NGOs. Public concern at the exaggerated—often apocalyptic—tone of public statements; serious doubts about the integrity and honesty of some of the scientific and technical claims made by some NGOs; increasing alarm at some of the more high-risk stunts undertaken to attract media publicity; all these combine to leave such organizations with a growing credibility problem. Governments take less seriously those NGOs that misunderstand science or fabricate data in efforts to support their case. The public is less inclined to give money and other forms of support to organizations that prove to have many of the same failings that they accuse their opponents of having.

These concerns can be expected to intensify as NGOs—like other special interest groups—seek to become more and more involved in the political and decision-making processes which determine the outcome of development applications, business investment, environmental, health and safety standards and other matters in which they seek to influence the outcome.

CODES OF CONDUCT—PRECEDENTS

Codes of Conduct are increasingly widespread among commercial, professional and government organizations but only a handful of NGOs—predominantly groups involved in the provision of humanitarian aid—have taken the initiative to establish their own Codes.

The obvious question to ask is: why have so many organizations found it necessary or desirable to have Codes of Conduct when so few NGOs have done likewise? Are there important differences between the structure and behaviour of NGOs, and that of other groups in society, to make such Codes unnecessary for NGOs?

Codes of Conduct are essentially a response to the high level of public mistrust of institutions and of the individuals who run them. Business enterprises have found themselves under increasing public scrutiny and criticism bordering on hostility over a variety of environmental, safety, social, financial and economic failures. Consequently, business has become increasingly subject to Codes of Conduct that supplement national and international law. Such Codes are either general in their application—e.g. the OECD Guidelines for Multinationals—or of specific application to particular industries or types of companies—e.g. the Code of Conduct for companies selling infant formula food. Those business enterprises covered by Codes of Conduct are subject to intense public scrutiny over their compliance with the provisions of the Codes. Failure to comply can result in adverse criticism and hostile reaction from governments, shareholders, consumers and customers; all of which can affect the financial and operational performance of the company.

There are over 30 such Codes in existence today; some imposed on enterprises by international bodies while others were initiated by companies themselves.

Government agencies also face mistrust from a population that demands the highest standards of probity and performance across the range of human and other services provided by the agencies. The same applies to the professions—one of the oldest Codes of Conduct for any profession is the Hippocratic Oath for physicians, while other arms of the medical profession such as psychiatry and nursing have also seen the need for a code for themselves.

The ethical dilemmas in contemporary journalism are well known. The Australian Journalists' Association has had a Code of Ethics for over 50 years, and many news organizations have their own specific standards and principles which co-exist with the AJA Code.

Some NGOs working in the area of emergency response, humanitarian assistance and development aid have already developed Codes of Conduct. These include the International Red Cross, Catholic Relief Services and Oxfam, as well as the ACFOA Code mentioned in my previous article. Whatever the limitations of these Codes, these organizations have recognized the need to state clearly the underlying principles and the standards of behaviour under which they operate and

against which they are prepared to be judged.

WHY NGOS SHOULD ADOPT CODES OF CONDUCT

NGOs have claimed for themselves—and in many cases have been granted—recognition for their special experience, skills, knowledge and expertise in their fields of interest. This recognition is used to exert influence and pressure upon governments and the public policy making process. This pressure can be overt or covert; it can take the form of intel-

It is too easy for unscrupulous people to claim that their NGO has a large membership or that it represents the views of a large number of people

lectual persuasion or the threat of direct political action. In other words, NGOs seek to convert their reputations into power.

For organizations that exercise or seek to exercise power in democratic societies, a Code of Conduct should be seen at the very least as a necessary defence against some of the criticisms outlined above, namely, that they are secretive, undemocratic in their decision-making processes and have less than rigorous standards of governance. This is essentially a defensive argument but one that should be persuasive to those perceptive NGO leaders who recognize the validity of the public concern and are keen to respond.

Adherence to a public Code of Conduct would thus enable NGOs to answer the accusation of double standards and enable them to head off the imposition of compulsory Codes of Conduct by regional or national governments.

Their critics could no longer say that they were demanding standards of behaviour, accountability and transparency in business that they were unwilling to accept in their own organizations. This is especially true of those global, entrepreneurial NGOs that are effectively multinational enterprises with turnover running into millions of dol-

lars annually, large staffs that are well paid relative to their clients, and often with career paths and promotional prospects, international assignments and frequent travel as part of the normal conditions of employment.

More positively, a Code of Conduct establishing definite standards of ethical behaviour, corporate governance, democratic working systems and financial transparency would enable NGOs to build their support bases and give them greater credibility and authority in their activities.

At present, it is too easy for unscrupulous people to claim that their NGO has a large membership or that it represents the views of a large number of people.

It is too easy for unscrupulous people to make exaggerated, distorted or false claims about the scientific properties and implications of particular pharmaceuticals, chemicals, industrial processes or agricultural practices without credible and reliable verification from reputable professional or scientific bodies.

It is too easy for unscrupulous people to question the integrity, motivation, honesty and ethics of individuals involved in activities of which an NGO disapproves.

A Code of Conduct would enable NGOs to enhance their legitimacy by demonstrating their accountability, their openness to public scrutiny, their adherence to acceptable ethical standards of behaviour, and their commitment to a democratic approach to members and supporters.

The choice for NGOs then is quite simple: put your own house in order through self-regulation, or face the prospect that sufficient political pressure will be exerted upon governments to impose a Code of Conduct upon you.



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I P A

Knowing Our Place in the World

MICHAEL BACKMAN

WHAT is the population of Jordan? With the extraordinary media coverage both in Australia and overseas devoted to King Hussein's death in February, and with presidents past and present, and other world leaders flocking to his funeral, one might imagine it is 60 million. Or is it 40 million? Perhaps 20 million? Actually, none of these. Try five million. That's right, Jordan has a population less than the State of New South Wales. It is difficult to imagine world leaders flocking to Sydney for the funeral of the New South Wales Premier. But then, of course, King Hussein was able to punch above his weight on the world stage for geo-political reasons.

Nonetheless, the world really only cares about the Middle East as much as it does because of its oil. But even on that point Jordan misses out. Its main item of production is phosphate—the very same as was mined on Nauru and Christmas Island.

Phosphate has not made Jordan terribly rich—the country's GDP is about what we spend on Veterans' Affairs and about a fifth of what we spend on all of Centrelink each year. In fact Jordan's economy is about the same size as the State of Tasmania's. This doesn't mean that King Hussein was not important. He was. It's just that his country doesn't pack much of a punch.

And what of Libya, another of those countries in the Middle East that we hear so much about? It has just six million people—about a quarter of our own and just two per cent of the population of its great adversary, the United States.

There are some other prominent countries in the world that are only a shade of Australia in terms of population. Many European countries are in this boat. Austria has less than nine million people, Denmark barely more than five million, Ireland has not quite four million, Switzerland has seven million, Sweden less than nine million, and Portugal less than ten million. Too readily we allow false ideas of our place in the world to creep

into the national psyche. Among the developed countries, it's not just New Zealand that we are bigger than.

Then there's Brunei—that well-known, mega-rich oil producer. Well not quite. Brunei produces 150,000 barrels of oil per day. Even at its peak, around 1979, oil production did not rise above 250,000 barrels per day. Australia is in fact an oil giant compared with Brunei. Our production currently is in excess of 500,000 barrels per day. It is not the absolute level of oil production that has made Brunei famous (despite common perceptions to the contrary) but the fact that with a population of just 300,000, per capita incomes are high. In fact, Brunei is not hugely wealthy at all—it's just that there aren't that many Bruneians.

Australia's stock market is another 'giant'—at least in regional terms. At around US\$314 billion, its current market capitalization way exceeds the combined market capitalizations of the stock markets of Singapore, Jakarta, Manila, Bangkok and Kuala Lumpur—indeed all of South-East Asia. It is about the same size as all the listed companies on the Korean and mainland Chinese stock exchanges, and the combined market capitalization of the National Australia Bank and Telstra is about the same as the combined value of all the companies listed on the Jakarta and Bangkok stock exchanges.

There's a lot about Asia that was forgotten during the days of the 'Asian miracle'. Remember Vietnam—the new tiger that every American multinational seemingly was lining up to invest in? Its entire economy is less than five per cent of Australia's, despite its having four times the population. Given that our annualized growth rate currently is almost five per cent a year, it means that as a nation, we are adding an entire Vietnam to our economy every year.

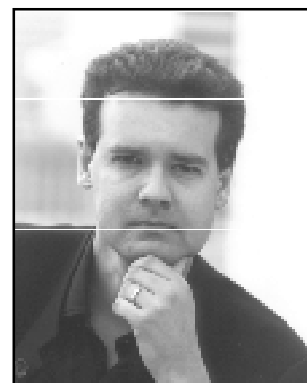
Then there's Indonesia. It has ten times Australia's population but even in the good times the size of its economy was barely a quarter of that of Australia.

Newspapers are filled with talk of this or that Indonesian bank collapsing. To be

sure, each collapse no doubt is a devastating event for Indonesia's economy but it helps to keep such events in perspective.

Even in good times, Indonesia's largest private bank, Bank Central Asia, had just US\$11 billion in assets which made it about six per cent of the size that the National Australia Bank is today. Another leading Indonesian bank, BII, had no more than US\$6 billion in assets—not quite four per cent of the assets of the National Australia Bank. Indeed, prior to the economic crisis, the assets of any one of our major banks would quite easily have covered the assets of Indonesia's entire banking system. Most of Indonesia's more than 200 banks would not have even qualified as credit unions in Australia. Today, of course, the entire Indonesian banking system as a whole is insolvent. In terms of net assets there simply aren't any.

Part of being Australian means under-emphasizing who we are and down-playing our achievements. But every now and again it is useful to take stock and remind ourselves of our true place in the world. King Hussein's prominence was in spite of, rather than because of, the realities of his country. That is not a problem that Australia needs to have.



Michael Backman is the author of *Asian Eclipse: Exposing the Dark Side of Business in Asia* (John Wiley & Sons, 1999) and a regular contributor to the *Asian Wall Street Journal*. He is currently based in Melbourne.

IPA

REVIEW

Reforming Economic Reform

JOHN HYDE

It is about fairness and morality—so reformers should say so.

MY host had barely accomplished the usual pleasantries when he opened what might have been a vigorous conversation with 'What price economic rationalism now?' I had only started to protest that Australia was escaping the Asian meltdown for some reason, when his wife said firmly, 'I am seating you two at opposite ends of the table'. I'm not very brave in such situations and have let him go on believing that Hawke's financial deregulation and tariff reduction, Howard's fiscal rectitude and labour market reform (such as it was) and the privatizations and deregulations of both political sides, State and Federal, were in vain.

In spite of 3 to 5 per cent economic growth, less than 2 per cent inflation and a relatively stable dollar while neighbouring currencies burn, people will keep telling me that economic rationalism has failed. It is true that we still suffer around 8 per cent unemployment, inadequate savings and high welfare dependency. These are, however, long-standing problems for which the economic rationalists' solutions have not been attempted. Nei-

Public, not informed, opinion is the principal barrier to change and it must be addressed. The public will not quickly be turned into economists

ther will they be tried until voters accept the need to do so. Meanwhile, the 8.5 per cent of the vote captured by One Nation is more than a straw

in the wind.

Reform must be made acceptable, if not popular, and how to make it so is itself an issue. The democratic economic reformer faces three formidable hurdles: one is that economic logic is counter-intuitive to most people; another is that reform always imposes costs on some people and the costs come before the benefits; and a third that people who benefit from the status quo are identifiable, concentrated and organized, while those who will benefit from change are not. He no longer, however, has to convince economists and administrators and more thoughtful political leaders, such as Tony Blair, who are already experimenting with terminology and argument to give reform an acceptable face.

Reports of economic rationalism's death are greatly exaggerated. It is true, for instance, that several leading economists now advocate a measure of government control over capital movements. It is not the case, however, that they have abandoned their belief in foreign investment or learned that investors don't care whether they can recover their funds; it is just that, rapid withdrawal being disruptive, they believe that a modest brake on capital flows from vulnerable economies will, in current circumstances, produce net gains. Current warnings about deflation reverse nothing. Reserve bankers have always feared deflation but until recently their problem has been inflation. Similarly, although many economists doubted that Hong Kong could burn off of the speculators (actually manipulators), they had always recognized the risks inherent in fixed exchange rates, never doubted that monopoly power could be employed to counter monopoly power, cheered when it succeeded, and are right about the price that has been paid for the success.

Public, not informed, opinion is the principal barrier to change and it must be addressed. The public will not quickly be turned into economists.

Even those people who accept the existence of self-regulating ecosystems tend to reject the possibility of a similarly self-regulating economic (or any social) system. Seeing no other order, they turn instinctively to command-and-control methods even though mainstream economists tell them that they have no more hope of redesign-

Even those people who accept the existence of self-regulating ecosystems tend to reject the possibility of a similarly self-regulating economic system

ing the economy than a biologist has of redesigning the ecology.

Like biologists, however, economists do have a reasonable understanding of the environment required for their self-regulating order to flourish. The social environment depends on what social scientists refer to as 'institutions'. The more fundamental of these are as old as society itself. They resonate even with devout economic irrationalists who, along with the rest of us, were once spanked for being unjust, untruthful, irresponsible, uncharitable, uncivil and taking Johnny's toys. The institutions we were once spanked for flouting uphold private property, contract, adherence to whatever rules other parties expect and accept, and personal responsibility. Economic reform is thus ultimately a moral matter.

Take the textile tariff. It is regressive raising the prices of items that are a high proportion of low-income budg- ▶

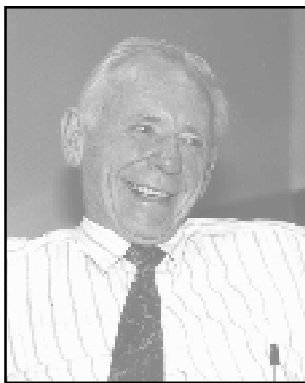
Book Reviews

ets by far more than would the proposed GST. It is unjust, capriciously transferring wealth from people who derive their incomes from other industries, especially export industries. Those who demand them of governments seek to be unjust, irresponsible and uncharitable. Their spokesmen also proved blatantly untruthful. The tariff is not only inefficient, it is wrong!

Not every lobby behaves as badly as the textile lobby has. Nevertheless, most of the needed economic reforms are to correct the same type of crony capitalism that got so much of East Asia into current difficulties. It flourishes at a lower level in Australia. Rules capriciously favouring some citizens over others are surely a breach of trust.

Reform of the welfare system raises the same fundamental issues but is more difficult because what is in fact equitable is not so easily established. Assisting the unlucky battler without too much encouraging the loafer is not easy. Nevertheless, a charitable regard for one's fellows is also a necessary social institution. Since governments and charities cannot give without taking, economic rationalists should not be condemned for pointing out the cost of middle-class welfare and of subsidizing rich men's toys. We can have subsidized arts and games at the expense of hospitals and pensions. The issue is: Should we?

If voters are to go along with economic reform they must believe that it is fair. Tony Blair is in many matters more Thatcherite than Thatcher. Nevertheless, he is by-and-large getting away with this by the small expedient of changing Thatcher's emphasis on responsibility to one of equity. These are, however, but opposite sides of the same moral coin.



John Hyde is a Senior Fellow of the IPA.



Déjà Vu Again

Michael Warby reviews

Against the Tide: An Intellectual History of Free Trade

by Douglas A. Irwin

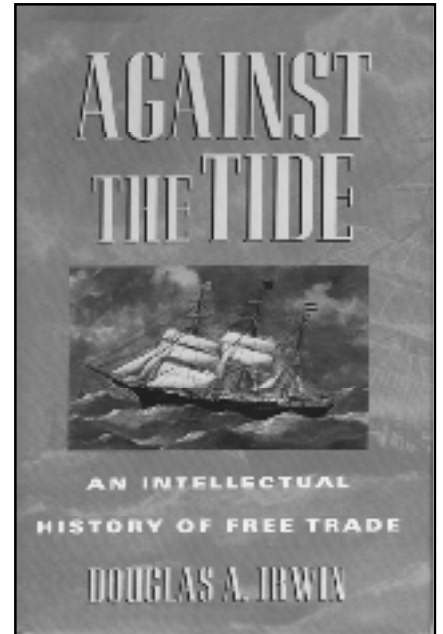
Princeton University Press,
1996, US\$16.95

When I first read Hancock's *Australia*, it seemed that Australia had not so much had eight full decades of federal public policy as reiterations of the same two or three decades—particularly when one compared 'Black Jack' McEwan's 'protection all around' of the 1960s with Earle Page's 'New Protection' of the 1920s. The policies even had similar denouements, with Australia doing worse than comparable countries when the world economy ran into problems: whether in the Depression of the 1930s or in the 1974 and 1982 recessions.

More recently, the car and textile tariff decisions of the Howard Government's first term seemed to take place in a backdrop where the arguments which had been fought, and apparently won, over protection and free trade in the 1980s eerily might never have happened.

Actually, the latter feeling was a little too pessimistic—the decisions only slowed down the rate of tariff cuts, they did not reverse or stop them. And even 'Black Jack's' policies were more sophisticated and forward-looking than those of the 1920s. While the Depression was made far worse by the international adoption of 'protection all round' which devastated international trade and thus global economic activity, the GATT was something of a saviour in more recent global recessions, acting to prevent another Depression in precisely the way it was intended to. So, one can see some progress.

But, it is still progress of a very slow, two-steps-forward-one-step-back kind. Which is precisely the long-term history of free trade, as Douglas Irwin's splen-



did volume shows.

Irwin does not attempt to write a history of public policy on trade, or the consequences of such policies. Instead, he confines himself to the intellectual debate over free trade. This he expounds brilliantly and clearly, displaying a deep grasp of the trade theory and a wish to inform which translates into a remarkably clear presentation of the ideas and arguments.

Reading *Against the Tide*, one quickly finds confirmation that the ideas served up as so 'obvious' in the Op. Ed. pages of *The Age* or on the ABC are old ideas recycled: ideas considerably more antiquarian than the free trade ideas they attack.

Irwin surveys the relatively meagre offerings of classical, early Christian, scholastic and natural law writings on international trade—writings which, apart from the natural law theorists, often reeked of the standard intellectual (whether aristocratic or priestly) sneerings at merchants as vulgar and sinful (some things really do not change much) with strong doses of xenophobia and fear of foreign contamination (such as are frequently expressed about foreign ownership of Australian media, for example). He then moves on to the mercantilists, who were much more favour-

able to merchants and much more impressed by the importance of international trade—often to the extent of disparaging domestic production since it did not (in their zero-sum view of the world) add net value to the ‘commonwealth’, such as occurred through profit-taking from foreigners. Contemporary commentary which sees exports as ‘gains’ and imports as ‘losses’ recycle

It was one thing to establish the theoretical basis for an optimal tariff, it is quite another for that to be translated into practical policies—not least because of the effects of foreign retaliation

these same views: all sellers are winners and all buyers are losers. Which, of course, poses the question: why is anyone silly enough ever to buy?

The mercantilists saw things resolutely in terms of a trumping national interest, which required that merchants be regulated so that they conformed with this national interest rather than following potentially wayward private interests. A national interest that mercantilist writers were sure they completely understood. Again, a familiar attitude from contemporary commentary: ‘economic nationalism’ being alive and well and advocated by the Democrats, Greens, One Nation, large sections of the ALP and many commentators favoured by *The Age* and the ABC.

Irwin identifies the original pioneer of serious analytical thought about trade as being Henry Martyn in his *Considerations upon the East India Trade* published in 1701 and reprinted in 1720, a work of which he writes ‘it would not be unreasonable to suggest that he surpasses even Adam Smith in his analytical contribution to the case for free trade’ (page 57). In this work, Martyn uses concepts of opportunity cost, efficiency and productivity. He was conscious of going against received wisdom in arguing that the public benefit came from improving the volume of trade—not the profits of particular manufacturers—from allowing competition to drive innovation and from taking maximum benefit from the international division

of labour. In Martyn’s eyes, to force more expensive domestic production in place of cheaper foreign production was simply to waste labour which could be far better employed in producing other goods so as to purchase such production. Martyn understood the difference between the level of wages and unit costs of labour—something that still eludes many commentators—arguing that greater productivity is what secured prosperity.

Irwin goes on to cover the physiocrats and moral philosophy (Chapter Four), Adam Smith’s pathbreaking synthesis creating a ‘systematic, coherent framework for thinking about the economics of trade policy’ (Chapter Five), the outpouring of free trade classical economics, including the concept of comparative advantage: that immensely powerful, and counterintuitive idea which shows how A and B can trade to mutual advantage, *even when A is better at making everything than B* (Chapter Six). In Part Two, Irwin deals with controversies about free trade doctrine, tracing each back to its historical roots.

These controversies generally operated around exceptions to the general case for free trade. The first, and most important, of these being Robert Torrens’ terms of trade argument. In work published between 1830 and 1844, Torrens—who, along with David Ricardo, developed the concept of comparative advantage—argued that the use of tariffs could change the terms of trade (the price of imports in terms of the price of exports) to a country’s advantage, though *global* welfare was best served by unrestricted free trade—since the benefits to the particular country were less than the losses imposed on others. Torrens was subject to a torrent of abuse for his ‘heresy’ before being rescued by John Stuart Mill’s more rigorous restatement of his argument in 1844, with the final confirmation of basic elements of the theory coming from F.Y. Edgeworth in 1894.

But it was one thing to establish the theoretical basis for an optimal tariff, it is quite another for that to be translated into practical policies—not least because of the effects of foreign retaliation. As Irwin says, the most that can be shown is that, under certain circumstances, unilateral free trade can be undesirable. A problem for which mutual agreement mechanisms for free trade (such as GATT) provide an answer.

The ‘infant industry’ argument, scorned by Smith, endorsed in a brief passage by Mill and expounded force-

fully by Friedrich List (though only for manufacturing: List supported free trade for agricultural goods and raw materials and eventual attainment, under the right political conditions, of global free trade), has never attained the level of intellectual coherence to be more than a vague possibility. Its defenders have never provided a case why any temporal problem would not be dealt with by capital markets or why any (unspecified) market failure should not be dealt with directly.

The ‘increasing returns to scale’ argument advanced in the 1920s by Francis Graham, the ‘wage differential’ argument advanced by Mihail Manoilescu in 1929, the ‘Australian case’ for protection based on income distribution effects, Keynes’s ‘macroeconomic’ argument for protection and strategic trade policy have all been, in the end, shown to be very limited in their scope, serving mainly to better define and delineate the case for free trade.

Irwin concludes with an insightful chapter on the (very limited) role of empirical analysis in these debates and the difficulties economists have regularly pointed to in actually implement-

The trouble with a book like this is that none of the people who should read it will bother to. They will, however, continue to advance arguments by-and-large refuted before the European colonization of Australia

ing interventions to genuinely beneficial effect. Irwin’s own final comment sums things up: ‘if the historical experiences described here continue, free trade will remain one of the most durable and robust propositions that economic analysis has to offer for the conduct of economic policy’ (page 230).

The trouble with a book like this is that none of the people who should read it will bother to. They will, however, continue to advance arguments by-and-large refuted before the European colonization of Australia. Intellectual progress is a limited commodity.

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Rational Figuring

Michael Warby reviews

Against the Gods: The Remarkable Story of Risk

by Peter L. Bernstein

John Wiley & Sons, 1996, 1998,
383 pages, \$24.95

I was originally introduced to economics by the writings of John Kenneth Galbraith. I have come to disagree with Galbraith on many things, but his practical demonstration that the ideas of economics can be expressed, as they ought to be, in fine English had great value as a starting point.

There are some things on which I still concur with him. Long before it became policy consensus, Galbraith agreed with Milton Friedman and Karl Marx that capitalism, if you were lucky enough to get it, was definitely the best option for developing countries. (There always was a great difference between the intelligent Left and the *lumpen*-Left: one is reminded of the late Joan Robinson's comment that the one thing worse than being a Third World country that a multinational wanted to exploit was being a Third World country that no-one wanted to exploit.) On the cover of the softcover edition of this brilliant, and brilliantly lucid, work by Wall Street investment adviser Peter Bernstein, Professor Galbraith is quoted as saying

With his wonderful knowledge of the history and current manifestations of risk, Peter Bernstein brings us *Against the Gods*. Nothing like it will come out of the financial world this year or ever. I speak carefully: no one should miss it.

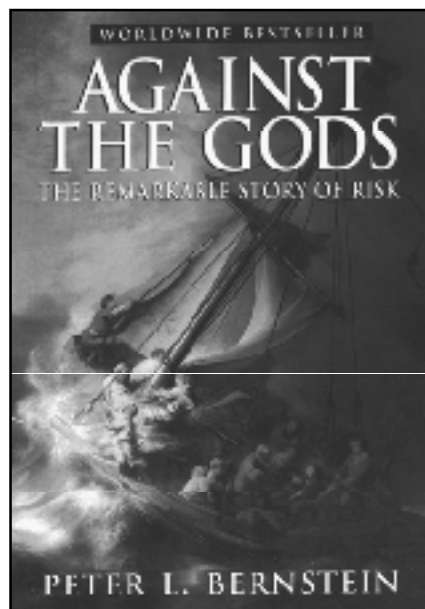
Absolutely.

It is difficult to know where to start in praising this work. It brings intellectual history alive in a way only very few scholars—one thinks of the late Sir Isaiah Berlin—have managed. Bernstein has the talent of the truly great expositors—of making everything he writes clear to any interested lay reader.

The virtue which stuck in my mind the most, however, was the way that Bernstein brings alive how much of our current commonplaces about simple arithmetic and—even more—risk and probability are profoundly new—and extremely powerful—ways of looking at the world. The great Renaissance genius Leonardo had a level of arithmetical un-

derstanding that today would allow him to 'barely squeak by in a third-grade arithmetic class' (page 43). The idea that one could put numbers on chance was foreign to the ancient or medieval mind: they were close, but, prior to the adoption of the Hindu-Arabic numbering system with its vital concept of zero and easy basis for calculation (try doing long division in Latin numerals some time) and to the acceptance of the idea of a changeable—and different—future they never took those crucial extra steps.

Steps which started with gambling. Bernstein's story has its forgotten pioneers—people who made path-breaking discoveries whose work was ignored, or entirely unpublished, during their lifetime. A sixteenth-century physician and gambler, Girolamo Cardano (1500-71) was one such. His *Liber de Ludo Aleae* (*Book on Games of Chance*)—the first se-



rious study of games of chance—was written in 1525, re-written in 1545 but not published until 1663. He was, however, a popular lecturer, so his ideas may well have been disseminated anyway—Galileo's 1623 essay *Sopra le Scoperte dei Dadi* (*On Playing Dice*) covered much of the same ground. After millennia of slow movement, things took off in a rush. The key ideas of probability theory—the study of outcomes for a world where more can happen than will happen—were developed in the seventeenth century—particularly by Pascal (he of the famous Wager) and Fermat (of the Last Theorem) in 1654. As Bernstein writes 'after 1654, mumbo jumbo would no longer be the forecasting method of choice' (page 72). By the late 1660s, Dutch cities were able to put the annuities they sold as financing arrangements on a reasonably

actuarially sound basis.

The late seventeenth and the eighteenth century saw the development of sampling and other elements of statistical theory, starting with John Graunt's 1662 book *Natural and Political Observations Made upon the Bills of Mortality*, a path-breaking analysis of births and deaths in London from 1604 to 1661. Charles II insisted that Graunt—a merchant of buttons, needles and such like—be admitted to the Royal Society, whose august members were not keen on admitting a mere tradesman. The King replied that 'if they found any more such tradesmen, they should be sure to admit them all, without any more ado'. Admission followed. Graunt reasoned about raw data in ways which are the normal stuff of analysis now, but which no-one had done before—including inferring from what had been observed to what had not: what is now known as 'statistical inference'. Graunt's work was taken further by Edmund Halley (he of the Comet) who used more complete data from Breslaw to work out improved life expectancy tables. Halley thus superseded the work of Ulpian—whose AD 225 tables had been the standard work for 1400 years!

It took a while for the full implications to catch on: the English government started selling annuities in 1700 which repaid their purchase price over 14 years. It was not until 1789 that they began to take into account the age of the buyer. Then we come to the gathering of underwriters in the coffee shop that Edward Lloyd opened in 1687 and Bernstein takes us into the history of the commercial application of risk management.

There is far more in this wonderful book (the foregoing only takes us to page 89). His descriptions of the interaction between the development of theory—particularly concepts of rationality and rational decision-making, including game theory—and commercial practice, in particular, are greatly enlightening. The story is, in many ways, inspiring, as it is about humanity's search to understand the world around us and to seek ways of rationally dealing with that most obscure of all things—the future, the key extra elements which made the Renaissance the 'take off' point being 'freedom of thought, the passion for experimentation and the desire to control the future' (page 54).

I recommend the book heartily.

Michael Warby is editor of the IPA Review.

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