

From the Editor

MICHAEL WARBY

PUBLIC debate in Australia is very notably marked by the *ad hominem* style—playing the man, not the ball. Particularly among commentators of ‘progressive’ opinions, there is a strong tendency to state or imply personal unworthiness in those having differing opinions from those held by the commentator, to imply that holding certain opinions degrades the holder of those opinions.

This is hardly a necessary part of public debate. One can disagree with someone about an issue—even think that their ideas or policies are stupid or profoundly mistaken—without it following that you think they lack intellectual integrity or are morally deficient human beings.

Indeed, since the quality of an opinion and the quality of a character are completely independent, even if you proved to any reasonable person’s satisfaction that someone was a creep without any sense of personal honour, that would imply nothing at all about their opinions on any issue under the sun—unless, of course, their behaviour tells you something about whether they believe what they say. Even dishonourable creeps can be completely correct about issues of public life.

So, such a style only makes sense if one somehow believes that the quality of a person *does* determine the quality of their opinions. If you believe that proving X is a creep does indeed show that X’s opinion on Y is wrong. Which, if you think about it, is a very strange thing to believe.

But, suppose you do believe such a thing, what does it imply? That opinions maketh the person. So a person with good opinions is a good person. So, displaying good opinions is ‘proof’ that you are a good person.

Suddenly, all is revealed.

In a society where most people don’t really have to worry about where their next meal is coming from, one can worry about other things. In their



informative book *Myths of Rich & Poor: Why We’re Better Off Than We Think, W.* Michael Cox and Richard Alm point out that consumption patterns are moving up the ‘Maslow’ motivation chain as we become more prosperous—from physiological needs, through safety and social needs, to self-esteem and self-actualization. A typical American at the turn of the century spent \$76 out of every \$100 on food, clothing and shelter. By end of this century, that had fallen to \$37 out of every \$100.

Hence the success of ‘New Age’ shops and spirituality. Buy your self-actualization here!

Hence also the success of *moral display*: displaying your high moral status by ostentatiously espousing approved opinions which mark you off as a member of the ‘moral vanguard’.

In a world with fluid social hierarchies—such as those of wealth and fame—status is much more up for grabs by the entrepreneurially minded. Ostentatious display of a high moral tone and high moral purpose is certainly one path to status. And a very easy one at that—one merely has to exhibit, in an articulate way, the right *attitudes*. There is no requirement for further action, donation of funds or even particular inquiry into the actual effects of anything you might advocate.

Indeed, such inquiry would be positively discouraged.

If certain ‘marker opinions’ show one’s status as a good person, to accept

debate about such opinions undermines their ability to provide status, because it raises doubt as to their actual worthiness. And, of course, raising problems about such opinions shows that one is not appropriately marked as a ‘good person’.

So, you act to preserve the value of your ‘asset’ and to punish transgressors. One is therefore driven immediately to personal abuse and attacks on integrity as an argument style. Hence, the greater the moral vanity, the greater the bitchiness and personal nastiness to opponents. Thus the self-identified progressives’ fervent tendency to attempt to ‘prove’ opponents are racist, to label them as ultra-conservative or traitors to their community or in any other way to mark them off as people of no account—anything to avoid serious debate about the actual issues.

This is, of course, an attitude deeply inimical to reasoned debate and the functioning of democracy—what Clement Attlee called ‘government by discussion’. It is the point which neither the more simple-minded critics of political correctness nor the people whose position might be characterized as anti-anti-PC quite grasp.

It is perfectly true that, outside the academy, there has been no explicit censorship of politically incorrect opinions—though it is worth noting that someone whose opinions are well-represented in public debate may not be aware of the extent to which contrary opinions are filtered out by various ‘gatekeepers’ (see Dr Oakley’s piece in this issue of the *Review*). There has, however, been a concerted attempt to delegitimize certain types of opinion and to avoid debating issues on their merits—a problem particularly rife for issues such as multiculturalism, immigration, indigenous issues and the environment.

This is the harm that PC and moral vanity have done to public debate in Australia.

I P A

From the Executive Director

MIKE NAHAN

Poverty.con.au

HARDLY a week goes by without another story of high and escalating rates of poverty in Australia.

Although there are no regular government estimates of poverty in this country, a recent book—with contributions from most Australian poverty experts—concluded that, in 1996, 17 per cent of all Australian households were in poverty and another 13 per cent were on the verge of poverty. This is equivalent to 3.6 million people—or about the population of Melbourne—and represents a 50 per cent increase on the poverty rate found in 1974.¹

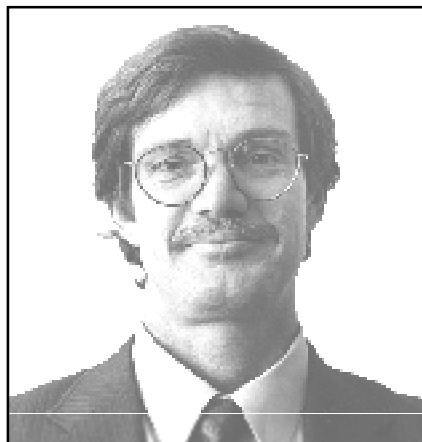
Clearly, if these reports have any connection with reality, they would indicate a scandal of monumental proportions. Australia is a rich country. Beyond an irreducible minimum produced by bad luck or folly, there should be no poverty in Australia.

So, what is really going on? Although we do not know with precision what the poverty rate in Australia is—because we have avoided measuring it—there is enough evidence to conclude that poverty, as it has traditionally been understood, is low and close to the irreducible minimum.

Of course, many Australian families struggle to get by on low incomes. That does not mean they are in poverty. Poverty has a clear and accepted meaning to ordinary folk—not being able to afford the basic necessities of life.

The overstatement of poverty is largely a result of a basic misrepresentation. The Henderson Poverty Line (HPL)—which is the main measurement of poverty in Australia—is a *relative* index based on a fixed share of average per capita household disposable income. It is not, and never has been, linked in any way to the actual cost of basic necessities.

The HPL is, in fact, a tool for measuring inequality, not poverty. The problem with such measures is that they ensure that poverty is always with us. Some households will always lie at the tail end of the income distribution, and be rela-



tively 'poor', no matter how much they earn or consume.

In order to see what is happening with poverty, we need a measure that is related to a basket of life's necessities. Although such a measure does not exist in Australia, a rough and generous estimate can be obtained by indexing the poverty line in 1974 by the consumer price index (CPI). This shows what an acceptable standard of poverty in 1974—when the HPL was first established—would be today. In 1998, the HPL was 35 per cent larger than the 1974 HPL indexed by the CPI. In other words, the lion's share of the reported increase in the HPL since 1974 has been driven by steadily inflating the poverty standard.

The received poverty estimate in Australia suffers from a number of other known flaws.

First, some crucial sources of income are left out of the calculations. In particular, government transfers—including payments in kind for education, health and community services and subsidies for housing, transport, aged care, and child care—are not included as income. These payments have more than doubled since the early 1980s and now represent about 35 per cent of the income base of low-income families.²

Second, the received poverty measures fail to take into consideration the fact that people's earnings increase as they get older. Recent research has shown not only that poverty is often a temporary phenomenon, but that Aus-

tralia is still a world leader when it comes to social mobility. Indeed, one recent piece of research found that, once life-cycle factors are taken into account, income distribution, and therefore poverty as measured by the HPL, declines by a whopping 40 per cent.³

Third, the HPL is based on income data which, for a variety of reasons—including the failure to include income from savings and the black economy—are known to understate the levels of consumption significantly, and therefore overstate the level of poverty. For example, income data from the household expenditure survey understate the ability of low-income households to spend and consume by around 56 per cent. If one uses expenditure figures, rather than income data, then as few as 14 per cent of the households who were below the poverty line using income data remain below the poverty line.

In other words, taking into account the known flaws of the received poverty measurements, poverty rates in Australia are relatively small. Instead of 17 per cent, the poverty rate is more in the vicinity of 2 per cent. The point isn't that income inequality is not worth measuring, but simply that income inequality is not poverty.

Why the exaggeration? As Will Rogers said, 'when in doubt, always go with self-interest'. For the poverty industry, high poverty lines are good for business. Of course, the industry directs its resources with greater precision than its rhetoric, but the possibility that careless rhetoric will influence the allocation of resources away from their greatest need should cause concern.

NOTES

- 1 *Australian Poverty: Then and Now* edited by Ruth Fincher and John Nieuwenhuysen, Melbourne University Press, Melbourne, 1998, page 4.
- 2 King, A., 'Income Poverty Since the Early 1970s' in Fincher and Nieuwenhuysen, 1998, pages 71–102, page 98.
- 3 Harding, A., 1993, *Lifetime Income Distribution and Redistribution: Applications of a Microsimulation Model*, North-Holland, Amsterdam.

IPA

REVIEW

Ambush in Cyberspace

NGOs, the Internet and the MAI

MICHAEL WARBY

UNELECTED, unrepresentative bodies, presenting themselves as being motivated by altruism and concern for the public interest, yet willing to engage in the most egregious distortion and blatant propagandizing, are successfully using the Internet to mount scare campaigns in what is clearly a power-grab. A power-grab that has serious implications for how public policy is determined.

Powerful evidence of this was provided in the recent failure by OECD countries to conclude a Multilateral Agreement on Investment (MAI).

A BRIDGETOO FAR ...

The MAI story is a simple one, clearly set out in Professor David Henderson's recent essay, *The MAI Affair: A Story and Its Lessons*, published by the Melbourne Business School in its Pelham Papers series and by the New Zealand Business Roundtable. The MAI was an ambitious—it turned out an over-ambitious—attempt to take the long-term trend towards liberalizing investment flows a major step further by bringing together and extending the OECD investment codes into a formal international treaty. It was part of a general liberalizing trend in policy around the world in recent decades, a trend well described in David Henderson's recent book *The Changing Fortunes of Economic Liberalism: Yesterday, Today and Tomorrow*. The treaty was to be negotiated by OECD members, but be open to other countries to accede to. Several non-OECD countries—Argentina, Brazil, Chile, Hong Kong China, Estonia, Latvia, Lithuania and Slovakia—were granted observer status in the negotiations.

Despite quite false claims made later, there was no secrecy attached to the negotiations. The original decision of the 1995 OECD Ministerial Council to proceed was a public one and, from June 1996 onwards, the OECD

set up a page for the MAI on the OECD Website. The OECD also held conferences covering the subject matter and the progress of the negotiations, with most of the associated papers being published.

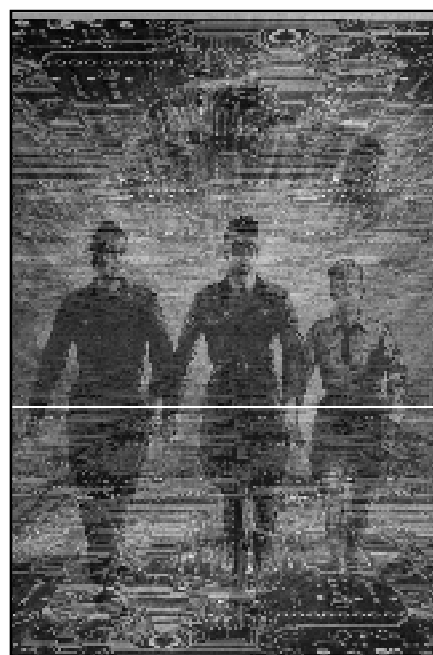
As it turned out, MAI negotiators found that too many difficult issues had been bundled together in a way which became quite unmanageable. It became increasingly obvious that, at best, a very limited treaty would be agreed to, with very limited liberalizing effects. As the scope of what was achievable shrank, willingness to proceed against significant hostile pressure also shrank. The MAI negotiations were officially abandoned in December 1998, a few months after the announcement by the French Government that France would no longer participate in the negotiations. There is no prospect of renewal.

These internal difficulties were not particularly unusual. The original proposals for an agreement on investment flows for APEC foundered for similar reasons, as did the attempts to require capital convertibility for all members of the IMF and attempts to have the Closer Economic Relations (CER) between Australia and New Zealand cover investment flows.

THE USES OF FEAR ...

What was unusual was the use of the Internet by non-government organizations (NGOs) to mobilize political opposition to the MAI.

The transformation of the European Community into the European Union, the US-Canada Free Trade Agreement and the subsequent North American Free Trade Agreement have all been deeply controversial. Otherwise, international economic liberalization had proceeded without organized opposition prior to the MAI. There certainly have been complaints and criticisms, but nothing resembling the mass campaign of opposition that



the MAI generated. When the Commonwealth Parliament's Joint Standing Committee on Treaties considered the MAI, over 900 submissions were received, the overwhelming majority of them expressing concern or being otherwise hostile.

What is even more striking is that many of the NGOs which took part in the campaign against the MAI have been very strong advocates of the use of international treaties to impose standards in other contexts—particularly environmental, human rights, labour relations and indigenous issues. The proposed MAI had far fewer implications for Australian sovereignty than, for example, the version of the Kyoto agreement on global warming that many of the environmental organizations would have liked to have seen. The main element of the MAI was to ensure that foreign investors are not less protected than domestic investors by local law—which is already the case in Australia. Indeed, the Constitution protects all property rights from expropriation by the Commonwealth, including those of foreigners ▶

(Section 51 [xxx]). Australia would not have been imposing great extra burdens on itself—the main value for Australia was the protection of investments by Australians in other countries. So, why the sudden concern?

Many NGOs are strong advocates of *internationalization*—the increasing use of international treaties and standards which, in countries with genuinely legalistic polities, have import for domestic policies and politics. They tend, however, to be very hostile to *globalization*—the development and deepening of world markets in capital, in goods and in services by the increasing occurrence of commercial exchanges across international boundaries. The MAI may have been an international treaty seeking to set an international standard, but it was clearly a measure aimed at fostering (or at least removing barriers to) globalization.

This behaviour by NGOs is easy to explain in terms of institutional self-interest. NGOs are significant players in international bodies and forums. Indeed, there is a push to regard NGOs as representing—indeed manifesting—an international ‘civil society’ to which governments should pay heed. NGOs are already deeply involved in the operation of UN bodies—as participants, as convenient advocates and through individuals building careers by moving between NGOs and UN bodies. At major international forums there can easily be more accredited NGO delegates than those from sovereign governments—this was the case at the Rio ‘Earth Summit’ in 1992, for example. The increasing use of international treaties—treaties with whose negotiation NGOs are deeply involved—provides NGOs with powerful devices for influencing the public policy of countries throughout the world. In public debates, domestic critics can also be attacked as standing against an ‘international opinion’ which consists largely of NGOs and of UN bodies who are in symbiotic relationships with them.

It may have been significant that, before the MAI negotiations, the OECD had not involved NGOs (apart from its union and its business consultative committees) in its operations. OECD negotiations have been strictly government-to-government affairs. The campaign against the MAI may be seen, therefore, as the NGOs ‘punishing’ the OECD for not conforming to this new international norm. The

(quite false) allegations of ‘secrecy’ make particular sense in this context—‘secrecy’ apparently being defined as ‘failing to involve the NGOs’.

Even during the MAI negotiations, the OECD found it politic to depart from previous practice and attempt to consult directly with, and inform, NGOs about what was going on. The OECD firmly resisted actually involving the NGOs in the process of negotiation (directly or indirectly), an exclusion which the NGOs clearly found intolerable. Even so, the pressure from the NGOs clearly did influence the direction of MAI negotiations, with later drafts including provisions clearly aimed at concerns raised by the NGOs.

Antipathy by advocacy NGOs to globalization also makes sense in terms of institutional self-interest. Globalization is a commercial process, widening the ambit of market activity. Advocacy NGOs are political organizations, focused on political outcomes. Unless they have a serious, countervailing attachment to liberal values, they have a natural antipathy to the widening of markets.

Advocacy NGOs not committed to liberal values are very much in the fear-and-conflict, fear-and-control business. Raising fears generates donations

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and recruits, and mobilizes members. Conflict generates headlines useful for the same. Fearful people are also more willing to accept state control as a form of protection. More state control means a wider operation of politics, so a wider role for, and more capacities for control over social outcomes by, politically-focused organizations—such as advocacy NGOs. And the campaign

against the MAI was very much a scare campaign, a campaign of fear—fears that the ubiquitous multinationals would suddenly get power to override sovereign governments, that the MAI was a ‘multinationals’ bill of rights’, that it was globalization run amok, that democracy was being overwhelmed. One Canadian NGO (the Council of Canadians) said in a report on the MAI:

... this global investment treaty constitutes a power grab for transnational corporations that would end up hijacking the fundamental democratic rights and freedoms of peoples all over the world.

The MAI was described as ‘historic’ and ‘what might have been the most far-reaching agreement of the century’.

That the MAI was negotiated entirely between *governments* was a detail which apparently passed the Council of Canadians by (and, if, as they seem to imply, OECD governments were already pawns of the multinationals, why did they need a treaty?). Suggesting that the MAI was more important than, say, the Treaty of Versailles, the SALT and START agreements, the founding of the United Nations or of the European Common Market, etc., etc., etc. further indicates the ludicrous heights of overstatement to which the anti-MAI campaign resorted.

Some more of the flavour of such complaints can be gained from statements emanating out of the Sierra Club, a prominent US NGO, from a publication revealingly entitled *The Case against the Global Economy*:

... transnational corporations (TNCs) have consolidated their power and control over the world ... In effect, what has taken place is a massive shift of power, out of the hands of the nation-states and democratic government and into the hands of TNCs and banks. It is now the TNCs that effectively govern the world.

Enormous economic power is now being concentrated in the hands of a very few global corporations relieved of constraints to their own growth.

The farcical misunderstanding of the nature of markets involved in such writing is completely unable to explain, for example, the ebb and flow of corporate fortunes under intense competitive pressure—of the top 20 US corporations (defined by market

capitalization) in 1987, only eleven were still in the top 20 a mere ten years later. It does, however, make perfect sense if markets are seen as a competing form of (highly decentralized) social decision-making to that of the (far more centralized) political arena in which advocacy NGOs operate.

The words of the French Lalumière report—commissioned by the Jospin Government and which eventually led to France's exit from negotiations—that

The agreement has become a symbol. It crystallised the demands and frustrations of civil society with respect to globalisation.

was certainly not less than the truth.

FROM OUT OF CYBERSPACE ...

Raising fears, recruiting members and mobilizing activists were where the Internet came in. The real 'kick-off' to the anti-MAI campaign was when a copy of the negotiating draft of the agreement was leaked and posted on the Internet in August 1997. This gave rise to a wave of attacks which were likewise posted on the Internet. In the words of David Henderson,

the whole conception of the MAI became the subject of a hostile international campaign by NGOs in immediate communication with one another. Hence the agreement emerged as a live political issue, with the potential for losing votes and support. This cast further doubt on the practicability of the original concept.

By the time the MAI was abandoned, internationally-co-ordinated anti-MAI campaigns were known to be active in more than half of all OECD countries, and in numerous developing countries.

The OECD responded by developing a specific MAI Website, attempting to counter the claims being made. While clearly an appropriate action—indeed, the OECD could learn a lot from the World Bank in how to use its Website to contribute effectively to public debate—how effective such action can be against an orchestrated campaign is unclear. The power of the Internet in general, and the World Wide Web in particular, is that it is incredibly decentralized. While there are certainly chat sites, bulletin boards, newsgroups, etc, where debate—often very vibrant debate—takes place, much of the Web consists of a series of monologues of enormously varying in-

tellectual quality and integrity. NGOs could—and did—build up a series of sites spreading claims and views which people could pick up without encountering opposing arguments. The MAI

Soviet- and Nazi-style agitprop is alive and well in the advocacy NGO sector

campaign largely by-passed the mainstream media—apart from talkback radio. But a feature of the mainstream media is that claims can be identified and countered in a continuing debate. Furthermore, maintaining credibility with journalists and editors is itself a constraint. For much of the Internet, there is no editing function, no clear mechanism for maintaining credibility.

These features flow from the Internet's freedom—as one astute Internet commentator said to me recently, the 'Net is like the world'. The issue here is not how to control the Internet. The issue is what mechanisms exist, or can be developed, to ensure that it does not become a tool for the shameless to generate scare campaigns which overwhelm reasoned consideration and debate.

THEY DIDN'T SEE IT COMING ...

One of the rich ironies in the Australian MAI debate was that the MAI was subject to far *more* procedural scrutiny than had previously been Australian practice with draft treaties. The Minister responsible, Assistant Treasurer Senator Rod Kemp, had, during his years as Director of the IPA and as an Opposition Senator, built a very prominent profile on the problems of using international treaties—largely at the whim of the Executive—to affect, through the external affairs power, the Federal-State balance within Australia and to take on obligations without

public scrutiny. The referral of the MAI to the Joint Standing Parliamentary Committee—it being the second agreement referred to the Committee and the first by a House of the Parliament—was the result of reforms whose need he had argued for more strongly than any other legislator.

But part of the problem was that the Commonwealth Treasury had administrative carriage of the MAI negotiations. Treasury is not a particularly Internet-clever organization. Indeed, except for e-mail, Treasury prevents its staff from using the Internet during work hours—apparently due to concern that they will 'waste' time rather than perform their duties. Apart from displaying a fairly pathetic notion of management—any confectionery manufacturer could tell them how small a management problem such an indulgence is—it means that Treasury is isolated from the power of the Internet as a political tool and its uses for access to ideas, statistics and presentation of arguments. Treasury was certainly not the organization either to warn its political masters of what was coming, or to provide any useful ideas or action on how to counter the scare campaign.

The attempt to create the Multilateral Agreement on Investment had significance way beyond its being another, failed attempt to create a general agreement on investment. It was the first time that Australia had experienced an organized mass campaign against an international economic liberalization measure. It showed that NGOs were capable of exacting considerable political costs against attempts to negotiate an international treaty without their participation. It showed that many NGOs are not bound by accuracy, evidence or reasoned argument but, on the contrary, are willing to resort to systematic misrepresentation and the most blatant propagandizing in their political campaigns—Soviet- and Nazi-style agitprop is alive and well in the advocacy NGO sector. And it displayed the power of the Internet as a device for organizing international political campaigns and as a propaganda vehicle.

Interesting lessons upon which all those concerned about the direction of our society should ponder.

Michael Warby is Editor of the IPA Review.

IPA

Competition Policy: Bringing the Community Along

DAVID TREBECK

The public interest needs more defenders—particularly business defenders.

If this had been written three to five years ago, its content would have been very different.

I would have noted that the tariff debate had been essentially ‘won’ during the 1980s, once manufacturers realized that the real issue confronting them was not cheap imports *per se* but, along with everyone else, a lack of international competitiveness. Tariffs are merely a one-sided response to the competitiveness problem which, at best, deliver selective benefits—but at the expense of exporters and consumers.

I would have welcomed the fact that the industrial relations debate had also been ‘won’ in the 1980s as more and more people recognized the futility of centralized wage-fixing and the inadequate regard it paid to productivity enhancement and incentives at the enterprise level. The allegedly extreme views of the H.R. Nicholls Society in the early 1980s—the members of which Bob Hawke once described as economic lunatics and troglodytes—had become mainstream and self-evident by the end of the decade.

I would have expressed appreciation of the growing liberalization of foreign investment regulation, which had come a long way since planes to Canberra were half-full of executives and their advisers, beating a path to the Foreign Investment Review Board, in the hope that it, and then the government, would smile on their commercial plans for the future. Xenophobia was in retreat.

I would have cheered at the prospect of an incoming Coalition government finally doing something about monopolistic practices on the waterfront, and so delivering a billion-dollar annual boost to national income and export-oriented investment.

I would have anticipated eagerly the forthcoming partial privatization of Telstra, which was not only being transformed from a sleepy and arrogant mo-

nopoly, but which also held the prospect of creating thousands of first-time shareholders who would participate in the future success of the business.

I would still have been rejoicing at the tearing down of the Berlin Wall, the demise of communism, and the emphatic victory of market economies over central planners. With the so-called ‘peace dividend’ allowing a major reduction in public expenditure, and countries everywhere embracing economic liberalization, how could the future be other than rosy?

Why are economic reformers now so much on the back foot ... why have we, at times, opted out of the debate entirely?

And I would have endorsed the essential conclusion of the Hilmer Report that the case for competition was so overwhelming that the onus of proof should be such that those seeking a non-competitive status quo had to prove that this was in the public interest.

THE REFORM RETREAT

What has gone wrong? Why are economic reformers now so much on the back foot, defending against propositions we once would have casually flicked to the boundary? Why have we, at times, opted out of the debate entirely

or, worse, changed our views because the tide of public opinion seems to have shifted?

Providing a comprehensive answer to these questions is well beyond the scope of this short article, not to mention my capacity. But I have some explanations, criticisms and suggestions to offer.

There’s an old rule which says: ‘always back self-interest: at least you know it’s trying’. I think we have, in contemporary competition policy debate, an exception which breaks that rule. Let me explain. Who are the principal beneficiaries of a more competitive economy? The business community and consumers would top my list.

In this country, we don’t have nearly deeply enough ingrained a political ethos of deciding policy in the light of what is in the best interests of consumers. That may seem an odd statement, given the predilection of politicians to poll swinging voters in marginal electorates every five minutes. But I am thinking here about industry policy, competition policy, and so on. How much did consumers get a look in when the last automotive policy decisions were being made, or when deregulation of the dairy industry was under the microscope? Where were consumer interests when the pay TV digitalization and Air New Zealand decisions were made? We are a long way from New Zealand where there is an entire political party—ACT, standing for the ‘Association of Consumers and Taxpayers’—dedicated to these interests.

As for consumer organizations, we know they test washing machines and criticize bank charges, but what about a cohesive, effective advocacy of the consumer interest in the public policy debate? Where, for example, is the cheering of low inflation figures or record low interest rates?

I don’t want to criticize consumer groups too much, because I know that they don’t have much money. Instead, I

want to concentrate on the real villain ... business itself.

My central proposition is that the business community has easily the biggest vested interest in achieving a more competitive economy and therefore should be ensuring, quite simply, that this occurs. Further, there can be no excuses on the grounds of financial stringency, especially as individual businesses shell out so much money for their various industry organizations (many of which, I hasten to add, are valued clients of mine).

In fact, when you think about it, we have an absolute motza of business organizations pursuing their members' interests—perfectly legitimately—day in, day out. For the most part, these groups are in tune with the broader interest and are contributing to a more informed debate. But not always. And so, who is looking after the broader interest and the longer term interest when the special pleaders are at work?—whether they be the car makers, textile firms, news-agents, pork producers, citrus farmers, television proprietors, doctors, CD manufacturers ... the list goes on.

Ideally, that's what governments are for but, if you are like me, you've grown increasingly sceptical of the capacity of governments to withstand skilful, well-funded and, at times, brutal campaigns from sectional interests, unless there is some countervailing influence being brought to bear in the public arena. Governments of all complexions have become notorious for putting their fingers to the prevailing short-term breeze before taking major decisions. So much so that, when the Howard Government did take a courageous tax package to the electorate, it was pilloried by self-styled political hard-heads for having a death wish.

When I worked for the farmers in the 1970s and early 1980s, and was an active participant in the tariff debate, many of my antagonist manufacturers were genuinely puzzled as to why one element of business—namely, the farmers—was being critical of another. Some found it somehow 'un-Australian', others were merely confused that the fellow 'chaps' should behave like this. They didn't know, as we did, that, during a drought, the worst enemy of a sheep is another sheep.

And, really, not much has changed since then. If this country does have a business organization with a national interest charter, it is the Business Council of Australia. When was the last time it issued an unambiguous statement on in-

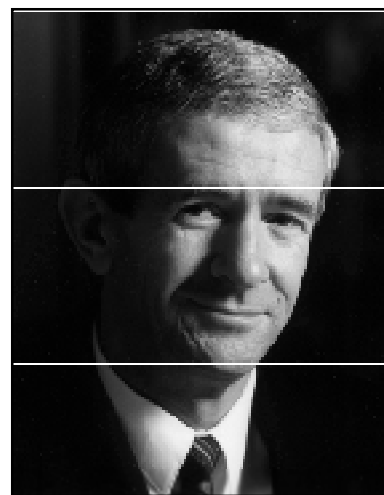
dustry policy? Not in isolation or in general terms, but right when the government was having its arm twisted by a particularly influential business group and Cabinet was about to adjudicate on the matter?

BUT IN NEW ZEALAND ...

Contrast the situation with that in New Zealand. There we have the New Zealand Business Roundtable, an organization which, in my experience, is unique. Not only does it have a clearly written charter to pursue the national interest and the longer term view, but it does so fearlessly and relentlessly. Over the past decade, many Australians have made the pilgrimage across the Tasman to see why New Zealand's policy-making performance has been superior to our own. Many simplistic conclusions have been drawn about the so-called New Zealand miracle which do not recognize the differences with Australia—for starters, it doesn't have a Senate ... or State governments. Equally, now that the miracle is fading, a new round of self-serving and wrong explanations are appearing.

But what is special about New Zealand is the Business Roundtable. Who better to cite than its Executive Director, Roger Kerr? In a recent speech, after noting that public choice theory predicts organized groups of producers have strong vested interests to pursue narrow interests at the expense of broader groups—and that the former president of the Confederation of British Industry had called for a 'bare-knuckle fight' against Mrs Thatcher's market reforms—he offered three reasons for the change of heart in the New Zealand business community since Muldoonist times:

First, from the early 1980s, a growing number of business leaders came to accept that the habits of the rent-seeking society had run the country into the ground. They did not like the results in the form of relative national decline and did not want to spend their lives struggling to grow their businesses in a stagnant, uncompetitive economy. They were prepared to take a long term view and back policies which had high short term costs for many businesses. They saw their long term self-interest as being in line with that of the broader community in promoting a growing, dynamic, economy. Secondly, business people came to understand that you can 'rent' a government privilege but you can never 'own' it—it can always be taken



NZBR Executive Director
Roger Kerr

away. You have to spend a great deal of time and money maintaining your subsidy, tax concession or other handout. Most business people decided that their interests and those of their shareholders were best served by abandoning the old-style lobbying game and concentrating on running their businesses in a competitive environment.

Thirdly, in the long run, privilege is unlikely to withstand public scrutiny. As Keynes put it, 'the power of vested interests is vastly exaggerated compared with the gradual encroachment of ideas'. Business and community interests are better served by attacking obstacles to better economic and social performance wherever they exist than by seeking advantage at the expense of the general public.¹¹

Modesty prevented Roger Kerr from acknowledging his own, remarkable, contribution to shaping the climate of New Zealand business opinion, his prodigious productivity, consistency and persistence, his refusal to be diverted by the abuse of critics—who, while they could throw stones, could never lay a glove on the arguments being advanced—and the unflinching support he received from two equally remarkable Chairmen—Fletcher Challenge's Ron Trotter and Lion Nathan's Douglas Myers. As one who has been privileged to conduct assignments for the NZBR over many years, and who reads every speech and submission the organization publishes, I can only say how lucky New Zealand is to have a national treasure like him, and how much we suffer because we don't.

IMPROVING THE DEBATE

I have often pondered why we have not been able to replicate the same climate of public debate in this country. Here are a few views.

First, and importantly, despite our economic ups and downs, we have never quite faced the abyss in the way New Zealand did at the end of the Muldoon era. New Zealand was a genuine basket case at that time: our lucky country has, by contrast, enabled us to carry some baggage and complacency which other countries couldn't afford.

Second, business organizations, individual companies and individual business leaders have become disappointingly timid following some well-publicized monstrosities by political leaders during the 1980s. I am sure I do not need to spell out the full story, but merely mention what happened to Hugh Morgan and Dick Warburton when they had the temerity to criticize the government of the day and note, conversely, that, on the occasion of at least one Federal budget, both the President of the Business Council and Chief Executive of one of Australia's largest companies tamely issued their press releases from the hallowed precincts of the Prime Minister's office.

Third, I am constantly surprised how few senior executives have a really good understanding of either the policy process or public policy principles. Far too many think running a government is, or should be, like running a business. It isn't and it never will be. As a result, business views are often easily dismissed by governments as irrelevant—which may help governments escape effective scrutiny—or they are implemented, often with disappointing results.

Fourth, while it is understandable that chief executives remain highly focused on their business fundamentals and the immediate imperatives driving company performance, it would be encouraging if major set-piece occasions, like annual reports and AGMs, were also used for more considered reflection on longer term and broader issues, rather than a few desultory paragraphs on the need for government to do better.

Fifth, in a related sense, there is still a surprising reticence among many business groups for the type of rigorous policy research that is the hallmark of the New Zealand Business Roundtable. There are, of course, exceptions to this—the current tax debates being an example—and I may be accused of having a vested interest since this is my company's stock-in-trade, but I would merely invite a

comparison between the published output of the BCA or the ACCI and the range, volume and depth of material published by the NZBR.

In particular, and related to competition policy, there is simply not enough credible material readily at hand to demonstrate the successes achieved in the reforms which have occurred to date. When the emotional clap-trap is raised by the usual suspects against the latest proposal for reform, where is the solid evidence to rebut such nonsense? When ordinary citizens express understandable fears of the unknown, where are the reassurances based on past experience in other situations? What has been done to document, or publicize, the benefits of improved labour market flexibility? Or the benefits—still far from complete, mind you—of terminating the two airline agreement? Or waking up Telstra? Or trade liberalization? Or electricity reform?

We should do much more to remind people of their ready preparedness to change—despite their claimed fear of change—when positive opportunities, based on choice and technology, are presented: the mobile phone, computer, Internet or video; the increasing popularity of dining out or overseas travel associated with cheaper air fares; one-day cricket; liberalized shopping hours; plastic money and ATMs; and recipients' responses to changes in eligibility for government transfer programmes. Moreover, when people are voting with their feet on such matters, I don't observe too much concern being expressed for the victims—the displaced bank teller, the neglected street-corner grocery store owner, the stodgier test cricketer, redundant telex salesman or drive-in theatre operators.

Similarly, the next time someone condemns 'selling off the family silver' (aka privatization) ask them if they watched the recent TV documentary on the Granville rail disaster and, if they did, how comfortable that made them about public ownership of important infrastructure assets. Bert Kelly had a delightful response to people grizzling about rural unemployment: 'fixing that is easy: ban tractors and return to the horse and plough'. Messages don't have to be complex to be effective.

Who should be doing the research, or seeing that it is done? Who should be collecting and disseminating the anecdotes? The Government perhaps, in some areas; Tim Fischer for one has prepared some good material on the benefits of trade liberalization. But, over-

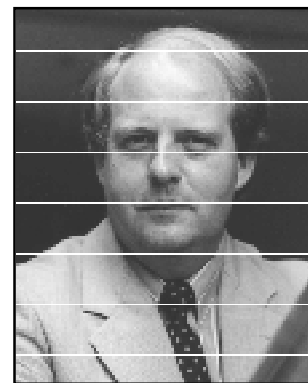
whelmingly, the responsibility lies with business, with the principal business organizations playing a catalytic and coordinating role. If business wants to influence the climate of public opinion at the next election, there is no better time to start than now.

Meanwhile, there is an extensive agenda of issues waiting to be addressed: airport regulation (landing rights and air traffic control arrangements), telecom interconnect pricing, regulated cost-effective price caps for utilities, more effective use of port land and reducing barriers to entry in stevedoring, management of the broadcasting spectrum, the Wheat Board's monopoly and sugar pricing ... to name just a few. As a consultant in the competition policy arena, I don't feel in imminent danger of redundancy.

Let me conclude by referring to a great contemporary enigma: the apparent divergence in community attitudes towards competition in the economy and competition in sport. Isn't it odd: the community spends Monday to Friday worrying about competition policy, and all weekend cheering itself hoarse in support of it. If we are seeking some new champions in support of competition policy—along with those few brave souls like Graeme Samuel, Allan Fels, Bill Scales and Alan Moran—perhaps they are to be found on the nation's sporting fields. Will business have the wit to sign them up?

NOTE

- 1 Roger Kerr (1998) 'The New Zealand Business Roundtable's View of Lobbying', IIR 8th Annual Public Affairs and Lobbying summit, Wellington, 18 March 1998.



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I P A

REVIEW

Global Warming and the ABC

A Pernicious Mixture of Science and Environmentalism

AARON OAKLEY

GLOBAL warming is arguably the most significant environmental concern of the '90s. Some argue that greenhouse gas emissions (a consequence of human activity) are resulting in global warming and that this will lead to environmental catastrophes in the next century. Some believe that we are already experiencing catastrophic climate change, with any unusual weather patterns (be it record high or low temperatures, storms or snowfalls) being attributed to human-induced climate change. The Kyoto Protocol (to which Australia is a signatory), drafted at the Kyoto conference in late 1997, sets various countries mandatory targets for the reduction of greenhouse gas emissions. The ideological goal of this is to reduce global warming. Mandatory greenhouse gas emissions and climate change would have potentially serious impacts on the Australian economy and environment. As our publicly-funded national broadcaster, the ABC should be expected to provide Australian citizens with high-quality information about these issues. Thus, it is pertinent to examine the ABC's coverage of the global warming issues, the Kyoto conference and its Protocol.

I searched the ABC Website (<http://www.abc.net.au>) for items dealing with the Kyoto conference, global warming and other related topics. Relevant items were analysed to determine if any assumptions (implicit or explicit) were made about the certainty of global warming. Items describing the potential impacts of global warming were categorized as being positive, negative or neutral. Furthermore, a list of parties quoted or interviewed by ABC reporters was compiled to determine if there was any bias in the selection of interviewees. A total of 28 news and commentary items dating back to 1996 were retrieved. In those news items and commentaries describing potential impacts of global warming, almost all focused on the negative aspects. Examples include the increasing frequency of drought in Eastern Australia, the deleterious effects on ocean cir-

culatation and sea life, and the death of corals on the Barrier Reef. In total, 13 of the recovered ABC reports featured discussion of negative impacts that might result from global warming.

Commentary from climate and meteorological scientists that was featured in ABC reports focused on the mechanisms of climate and weather pattern change, the greenhouse effect and global warming. By and large, their commentary was restrained and sensible. There were frequent references to the gaps in the scientific understanding of global climate and the provisional nature of climate-change projections. Scientists who made statements on the negative impacts of global warming were not, however, subjected to critical questioning by ABC reporters. This might have been expected considering that these scenarios are at best speculative. Furthermore, I was unable to find evidence that Australian or overseas scientists who are more sceptical of the accepted global warming scenarios were interviewed on this topic.

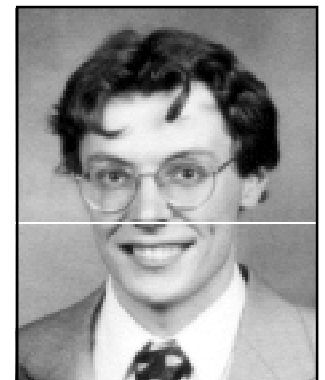
Apart from scientists, organizations and persons quoted by ABC reporters included Greenpeace, the Australian Conservation Foundation (ACF) and the World Wide Fund for Nature (WWF). Other notable commentators include Clive Hamilton of the Australia Institute and Alan Moran of the IPA. Comments by Greenpeace featured in no fewer than five stories. One news item was dedicated exclusively to comments by Greenpeace and the ACF. Disturbingly, none of the comments from these conservation groups were subject to critical examination, and thus the ABC's airing of those comments was essentially free publicity for them.

As science is evidence-based and not consensus-based, the reference that some ABC reporters made to the alleged scientific 'consensus' on global warming was somewhat misplaced. In a number of articles, ABC reporters made the *assumption* that global warming is real, some even making assertions to that end. From the *Four Corners* report 'The Hot Debate' (aired 18 August 1997):

The scientists now agree that the earth's climate is warming ... that the greenhouse effect is a fact.

In total, ten items were found in which ABC reporters made the assumption that human-derived global warming was a fact.

Lay persons relying on the ABC for balanced commentary probably gained the impression that catastrophic climate change will be a reality unless we impose substantial curbs on our greenhouse gas emissions in the near future. The selective interviewing of scientists supportive of global warming scenarios, the almost exclusive focus on the negative impacts of global warming, and the predominance of environmentalist commentary suggest that the ABC is significantly biased in its reporting of global warming issues. It is fair to conclude that the ABC's reporting represents a pernicious mixture of science and environmentalism. The absence of interviews of scientists critical of the 'consensus' view on global warming, and the paucity of comments from persons and groups opposed to the Kyoto Protocol, are tantamount to censorship by omission. While preliminary, this study suggests that further systematic investigation of the ABC's handling of environmental issues—and in particular its handling of the global warming issue—is both warranted and overdue.



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IPA

Redundancies: The Money and the Box

STUART WOOD

Current redundancy law means that people can have their cake and eat it too.

MOST readers will be aware of the bizarre efforts to which some employees will go to 'get a package'. People with a job no longer resign; instead they manipulate their tasks in order to make their jobs redundant and to get a package. Poor performers may not know how to do their jobs but they certainly know the value of their packages and they know not to perform properly until they get one. 'Injured' employees often recover soon after exposure to the healing power of the 'package'.

Australia's senior executives have been just as determined to get their fill. In 1998, John Prescott received a \$11.1 million 'golden handshake', despite BHP's near \$1.5 billion loss last year. Soon after, Mr Prescott purchased a \$2 million getaway in Noosa. Similarly, Brierley Investments shed millions from its market capitalization before Paul Collins collected a \$3.4 million package. And now Norb Cole has claimed over \$40 million from Coca-Cola Amatil despite overseeing a similar fall in the price of Coke's shares. These three CEOs were recently listed by BRW amongst the worst performers of 1997-98, and yet they have walked away with millions.

Shareholders are entitled to be upset. Multi-million-dollar rewards commensurate with increases in shareholder value (for example, Joss at Westpac, Wilson at Tabcorp and Trumbull at AMP) are one thing but multi-million-dollar 'packages' for CEOs who have destroyed shareholder value are extraordinary.

As a consequence, redundancy packages have corrupted workplace culture at all levels. Nearly all employers are affected by this culture: old ones such as Telstra and new ones such as Crown; from blue-collar workers such as wharfies, right through to white collar whiz kids in financial services. Public and private sectors are equally affected. Only small businesses are immune from

the excesses.

In some sectors, redundancy payments have become so high that employees regard redundancy as a reward. Consequently, there is nearly always a rush of employees seeking to be made redundant. For example, when Premier Kennett advertised redundancies in the Victorian Public Service in 1993, 24,000 employees applied for 7,000 packages. In 1995, CBA employees took the Bank to the Human Rights and Equal Opportunity Commission ('HREOC') and convinced HREOC that being retrenched and offered a redundancy package was a benefit. The packages were so good that the CBA employees celebrated their sackings.

Employees are manipulating their tasks to make their jobs redundant,

'Injured' employees often recover soon after exposure to the healing power of the 'package'

clamouring by their thousands to cash in their jobs and taking their employers to court to get a package. Why? The reason is simple: redundancy packages are too large, they are taxed too beneficially and there is no requirement that redundant employees who obtain a new job repay redundancy monies.

COMPENSATION FOR WHAT?

The ABS recently confirmed that more than two-thirds of retrenched workers who become unemployed after they are retrenched obtain new employment

within 3 months. That is, the majority of all redundant employees get the money *and* the box.

Moreover, it is common for employees to line up a new job before being made redundant: they get the package and a new job. Indeed, outsourced maintenance employees often find themselves retrenched on Friday, tens of thousands of dollars richer, and back on Monday, employed by a maintenance contractor at their old work-site, with only their employer and their bank balance having changed. A side-effect of having no rules requiring repayment is that, the best employees take voluntary packages, get a new job and leave their employer with the dregs.

Rules requiring repayment are critical now that redundancy packages have become obscenely high. For example, oil industry employees are entitled to packages of up to 100 weeks' pay, Telstra employees are not far behind on 84 weeks and Jeff's public servants of 1993 were entitled to \$5000 and 44 weeks. No wonder 24,000 public servants applied for 7,000 packages! No wonder Telstra has been able to reduce its staff by 25,000-odd during the last couple of years with relatively little resistance. These packages, however, come at a massive cost for employers, shareholders and the community.

The cost of redundancy has become a seemingly immovable obstacle for employers seeking to ensure that their businesses are competitive in increasingly global markets. In 1989, wharfies received \$300 million in redundancy packages but this did nothing to improve productivity on the waterfront (despite former PM Hawke's pronouncements at the time). In 1998, Crown boss Lloyd Williams blamed the cost of redundancies as a factor in the poor financial performance of the casino. And in February 1999, it has been reported that Deutsche Bank cannot rationalize its Australian operations, for fear of having to pay \$150 million in redundancy pay.

The cost of redundancy is also borne by consumers, in the form of higher prices, and, in some cases, by the community more generally. Prime Minister Howard promised \$1 billion of the proceeds from the one-third sale of Telstra would be set aside for the Environment Fund. What the Prime Minister didn't say (probably because he did not know) was that Telstra had set aside another \$1 billion (or roughly \$40,000 for each retrenched employee) to pay out its retrenched employees. Employees, who would be likely to obtain new employment in the fast-growing, highly-paid communications industry, and who would not have to repay their \$40,000 when they did. Surely, this money would have been more appropriately spent on the environment, health or education or returned to taxpayers in the form of tax cuts.

ORIGINS

Redundancy packages have grown exponentially since 1983 when the ACTU convinced the Australian Conciliation and Arbitration Commission to grant a standard 13-week redundancy entitlement, binding employers with more than 15 employees. In deciding to establish the 13-week standard, the Commission relied upon statements by the ACTU that this standard would prevent industrial disputes. Of course this has proven to be another big lie: over the last 15 years the unions have taken industrial action to gain entitlements to over 100 weeks, 84 weeks etc. The 13-week standard has become a base from which to 'bargain'. The unions' latest efforts forced BHP, under the threat of industrial action, to agree to a \$140 million deal for its Newcastle steelworkers. Now the ACTU wants the 13-week standard increased to meet 'community standards'. A community standard only achieved because the unions refused to apply the 13-week standard. With every redundancy, the unions have ignored the standard, and taken the opportunity to pressure employers with the threat of industrial action to increase the benchmark. And now, under the guise of 'community standards', they want the benchmark that they artificially created recognized in awards.

The ACTU wants 3 weeks per year of service (uncapped) and an extension of the redundancy entitlements to small businesses as well. Incredibly, the ACTU claims its proposed standard will reduce industrial disputes: it made the same claim in 1983.

Moreover, the rules governing redundancy are apparently not the concern of the Government and have been formulated without the scrutiny of the Parliament.

A NEW APPROACH

It is time to develop new principles regarding redundancy packages openly. Too often, senior executives have entered into redundancy deals to keep the unions happy or to feather their own nests. Telstra's current redundancy pay

Redundancy packages are money for nothing

arrangements were agreed to as part of a deal done with the unions to ensure a smooth merger between Telecom and OTC, rather than as a result of arm's-length commercial negotiations. In the private sector, directors often seek to ensure redundancy deals maintain the 'executive' standard.

Victorian Premier Jeff Kennett has begun to break this destructive cycle. Kennett has ensured that many Victorian Government employees are employed on relatively large salaries (up to many hundreds of thousands of dollars) with performance requirements and small (up to four-week) notice periods. Redundancy pay is not allowed and the redundancy deals with unions entered into by former Labor governments have largely run their course and have not been replaced.

The theoretical justification for an award base should also be re-examined. Three points may be made about the award 'safety net'. First, the costs should not be borne by business, especially small business. The arbitration of award redundancy entitlements to protect employees stalls the implementation of workplace change, which, by undermining the viability of Australian businesses, ultimately puts at risk the jobs of a broader group of workers. It is unlikely, however, that the Commission would adopt this reasoning to reduce the present 13-week entitlement.

Second, if any amounts are to be required to be paid (by the Commission-

mandated award 'safety net'), they should not be determined simply by the combination of union demands and the Commission applying vague notions of community standards and accepting promises from unions that they will avoid industrial disputes. Redundancy pay is set by the Commission, while other employee entitlements such as annual leave, long service leave, etc, are (generally) set by parliaments. Perhaps the Commission's role in these matters needs reconsideration. Third, if redundancy pay is to remain part of the 'safety net', repayment rules must be introduced and the favourable tax treatment of these payments should be removed.

Whether or not the rationale of the 'safety net' is re-examined, Australian employers should take heed of the principles implemented in Victoria. Implementation of these principles would prevent the multi-million-dollar payouts that Australia's most senior executives enjoy. It is, however, difficult to imagine a large number of directors deciding to reduce their own (or their colleagues') packages. Therefore, shareholders, led by institutional investors, must put an end to this nonsense: redundancy packages are money for nothing. Shareholders must insist on adopting a Kennett-type approach to executive remuneration. Governments can help with rules regarding disclosure, but ultimately the pressure must come from the shareholders. That way, by tying remuneration packages to performance, shareholders will reward directors interested in results, not resorts.



Stuart Wood is a Melbourne industrial relations barrister who acts for a number of Australia's largest employers. The views expressed in this article are his own.

Small Business: Should We Protect It?

COLIN WATSON

Small business is often regarded as the heart of John Howard's constituency. Unfortunately, the prime ministerial heart may go out to it rather too much.

IT has been almost universally accepted that markets, more often than not, deliver better outcomes through the efficient distribution of resources and provide better goods and services than the command-and-control alternatives. The driving force behind the success of markets is competition. Competition generates better products through innovation and provides better value for money for consumers. Competition is the engine of economic growth that underlies our standard of living.

Because of the benefits delivered through competition, many countries have laws that protect the competitive process. Australia is no exception with the *Trade Practices Act* (TPA). Australia's competition laws are, however, flexible. They enable parties to obtain immunity from legal proceedings for arrangements that might otherwise be in breach of the TPA—provided they can demonstrate that an overwhelming public benefit is generated by the conduct that outweighs any anti-competitive detriment caused. One of these types of immunities is known as an 'authorisation'.

NEWSAGENTS: PROTECTING TERRITORY...

One authorisation case that has recently attracted a lot of public attention is the newsagent distribution system on the eastern seaboard of Australia. Under the terms of this authorisation, newspaper and magazine publishers were able to distribute their products on an exclusive basis through newsagents, who each had their own exclusive territory or territorial monopoly. Any other business in a particular territory which also wanted to sell newspapers and magazines had to enter into a sub-agency agreement

with their local newsagent whereby the newsagent received a hefty commission on the sale of newspapers and magazines. In other words, unless you were a newsagent, your supply of newspapers and magazines (when they arrived) was completely dependent on your direct competition.

Only after significant political pressure was applied by the Fraser Government to the Trade Practices Commission (TPC), did newsagents receive their original authorisation in 1980. Although the TPC found that the effect of the distribution system on competition was substantially anti-competitive because of the territorial

**Competition is
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monopoly granted to newsagents, it justified its decision on the public benefits delivered by the newsagents providing a home delivery service. Newsagents have long argued that they require the profits generated by their territorial monopoly, especially through sub-agency arrangements, in order to cross-subsidise their newspaper home delivery service.

Consideration of the newsagents' authorisation was opened up again in

1994 when the Trade Practices Tribunal (TPT) handed down a decision in regard to revised newsagency arrangements in Victoria in late 1994. Although the Tribunal recognised that there was a public benefit generated through the home delivery of newspapers, it found that the viability of newspaper home delivery was not dependent upon a cross-subsidy provided by the territorial monopoly. The Tribunal set aside the revised Victorian newsagency authorisation.

In 1995, after the TPT decision, the Trade Practices Commission decided to review the newsagent distribution system in New South Wales/ACT, Victoria and Queensland. Newsagents could no longer defend the anti-competitive elements of their territorial monopoly on the basis of an overriding public interest. There was also the threat of the Trade Practices Commission revoking their authorisation altogether. So the newsagents began a political lobbying campaign.

It is hardly surprising that newsagents would seek to retain the arrangements that underwrite the profitability and value of their businesses. As the TPT observed about the newsagents: 'There is a particular concern to protect, at least to a degree, the goodwill of existing newsagency businesses'.

Newsagents were able to find comfort in assurances provided by the Liberal and National Party Coalition before the 1996 election. Coalition campaign documents for the 1996 election expressed the view that the authorised newsagency system is in the public interest and will be preserved.

The then Leader of the Opposition, Mr Howard, told the *Sunday* programme before the 1996 election that the Coalition would not dismantle the system as 'I don't think any Australian would appreciate, in the name of

economic theory, getting rid of an arrangement that delivers' (the benefit of) 'your favourite local metropolitan newspaper on your front lawn each morning'.

The only economic theory that Mr Howard could have been referring to in this instance was the enforcement of the *Trade Practices Act*!

Mr Howard, now as Prime Minister, told the Parliament in December 1996 that:

The Government believes that the maintenance of an efficient low cost home delivery system for newspapers does generate a lot of public benefits and that these offset any anti-competitive effects that may flow (from) any arrangements that are necessary to protect and support the system.

It was unfortunate that Mr Howard sought to perpetuate an argument that had been well and truly debunked by evidence and detailed analysis carried out by the Trade Practices Tribunal in 1994. Obviously, Mr Howard's support for newsagents in the past has been based on less than complete information about the relevant facts.

In November last year, the Australian Competition Tribunal (successor to the Trade Practices Tribunal) handed down a decision which finally set a deadline for the abolition of the territorial monopoly enjoyed by newsagents.

After the Tribunal decision, the Government requested the Australian Competition and Consumer Commission to consult with newsagents and other interested parties over the future of newspaper and magazine distribution arrangements. Who wouldn't mind the ACCC helping to sort out their trade practices difficulties? The prospect, however, of the Howard Government legislating an outcome to protect newsagents from competition still looms large if no acceptable compromise can be found.

It is the legitimate right of the Government to legislate to protect existing newsagency arrangements if it sees fit to do so. If, however, the Government is going to legislate, it should be intellectually honest about its rationale for doing so. In this instance, the rationale behind bestowing legislative protection on the newsagency system is to protect the profitability and goodwill of existing newsagency businesses. Any argument about the maintenance of the newspaper home delivery system will be

completely bogus unless and until the Government commissions an independent study that refutes the previous findings of the Trade Practices Tribunal.

Leading opponent—and longstanding critic—of competition policy is prominent National Party Senator Ron Boswell. Senator Boswell described the Tribunal decision on the newsagents as totally unacceptable and said that 'it was time to draw a line in the sand against the actions

A creeping tide of small business protectionism appears to be growing within the Coalition Government

taken by non-elected bodies ... to deregulate simply for the sake of it' and also went on to say 'We have to restore sovereignty over these issues to the Parliament and government who are ultimately responsible to the people for the competition policy processes'.

Senator Boswell makes competition sound like pretty extreme stuff when it can threaten to undermine the decisions of democratically elected Parliaments. The major flaw in this line of reasoning is that the Australian Competition Tribunal was merely interpreting the law as legislated by the Commonwealth Parliament under the *Trade Practices Act 1974*.

If the Howard Government decided to override the *Trade Practices Act* through legislation to protect the territorial monopolies of newsagents—even though the newsagents have failed on several occasions to demonstrate a sufficient continuing net public benefit with the current arrangements—such a precedent would inevitably lead to other groups calling for similar exemptions from Australia's competition laws.

AND SO TO PHARMACIES ...

A creeping tide of small business protectionism appears to be growing within the Coalition Government which is muddling its policy deliberations; a trend apparently spearheaded by Mr Howard himself.

Another group that is seeking exemption from competition policy and competition law is the nation's pharmacists. Once again, Mr Howard has lent his support to the continuation of restrictions on competition in retail pharmacy. Prior to the 1996 election, Mr Howard wrote to the Pharmacy Guild of Australia telling it that:

the Federal Coalition believes that the tradition of pharmacies owned and operated by pharmacists has served Australia well, and we are committed to seeing this preserved.

As far back as 1979, the Ralph Inquiry found that restrictions on the ownership and operation of pharmacies increased dispensing costs and drug prices, and recommended that ownership restrictions and prescription dispensing should be liberalised.

The 1996 National Commission of Audit commissioned by the incoming Howard Government recommended that:

Contestability in retail pharmacy should be improved by allowing non-pharmacists, including large retailers such as supermarkets, to own pharmacies dispensing PBS drugs and by allowing pharmacists to own an unrestricted number of pharmacies.' (Recm 4.14, page 55 NCA.)

According to a 1995 Industry Commission report on *The Growth and Revenue Implications of Hilmer and Related Reforms*, there are potential savings of around 15 per cent in retail margins on pharmaceuticals through liberalising current restrictions and allowing greater competition.

With the escalating cost of the Pharmaceutical Benefits Scheme estimated to be over \$3 billion to the Government in 1999–2000, the cost saving to consumers from greater contestability in retail pharmacy is not insubstantial.

The Pharmacy Guild, just like the newsagents, contends that the current pharmacy arrangements are in the public interest. The main arguments it uses to retain the current restrictions are that:

- medications are not ordinary items of commerce and are not suited to

being sold in a supermarket environment;

- the level of competition now enjoyed in pharmacy would be reduced under open ownership; and
- outside commercial interests would, ultimately, consume and compromise the pharmacist.

These arguments will be closely examined and scrutinised by a national review of pharmacy regulation due sometime this year.

The Pharmacy Guild is also seeking exemptions from the application of the *Trade Practices Act*. The Guild has called on the Government to:

exempt the Guild from the provisions of the *Trade Practices Act* so far as the Guild may issue recommendations in relation to certain pharmaceutical products and in relation to certain dispensing fees.

According to the Guild, it has received legal advice that it would be unlikely to receive an authorisation for issuing such price recommendations. What all this means in plain English is that the Guild wants exemption from the price-fixing provisions of the *Trade Practices Act* and believes that it is unlikely to be able to substantiate any net public benefit under the existing law that would override the anti-competitive detriment of such conduct.

The efficiency gains and potential cost savings to consumers at least deserve to be weighed against the claims of net public benefit from maintaining the existing system.

FOLLOWING ON ...

The initial successes of newsagents and pharmacists have prompted other small business groups to seek special favours and protection from competition. The National Association of Retail Grocers of Australia (NARGA) has launched a crusade against the growth of the major supermarket chains in Australia—Woolworths, Coles and Franklins. According to NARGA, competition and the unchecked growth of the major supermarket chains threaten to tear apart the very social fabric of the nation.

NARGA believes that the growth of the major grocery chains has created an oligopoly that is anti-competitive and which destroys small businesses and jobs in rural and regional Australia. It wants the market share of the major grocery chains capped and reduced, as well as an end to the deregulation of shop trading hours.

Whenever a group perceives a threat to its livelihood then, in the great Australian tradition, it goes running off to government to complain about unfair competition. The great crime committed by the major grocery chains is to provide a service to consumers through convenient shopping hours, cheaper prices as well as one-stop shopping where consumers can obtain most of the goods they want under one roof.

If the members of NARGA were providing such a great service, they wouldn't be losing customers to the major grocery chains as they assert. Nobody has forced consumers to shop with the major grocery chains. Consumers have voted with their feet and dollars in regard to where they want to shop.

Consumers should be allowed to decide for themselves where they want to shop. NARGA, however, wants to

No-one likes or appreciates the chill winds of competition when it threatens their livelihood and income

shut down much of the retail network of the major grocery chains and force consumers to shop with their members during restricted shopping hours. With people working longer hours, not everybody is able to shop during the 9am-to-5pm hours advocated by NARGA. In April 1998, the community of Bendigo voted on the question of whether to abolish Sunday trading. Over 70 per cent voted to keep the shops open on Sundays.

There have already been some short-term victories for the NARGA agenda. In 1996, the ACT Assembly legislated to restrict the trading hours of retailers in the larger shopping centres in order to protect small retailers in other shopping centres. In 1997,

however, the legislation was repealed after it became clear that the restrictions did not provide a net public benefit.

NARGA has already won a major concession out of the Howard Government with a parliamentary inquiry into the retail dominance of the major supermarket chains. Given the comfort that the Howard Government has given to other small business vested interests, NARGA must be confident that it can have some of its policy agenda adopted as law.

It would be unfortunate if governments in this country confuse the creation of an environment conducive for doing business that will generate jobs and economic growth with the need to protect certain types of businesses.

Last year, the Howard Government engaged in a bitter battle with the Maritime Union of Australia. It accused the MUA of holding a monopoly on the supply of labour on Australia's docks that prevented more efficient and productive work practices. Genuine reform of Australia's docks was surely long overdue.

The Howard Government's attitude towards the newsagents and pharmacists, on the one hand, and to the nation's wharfies, on the other, is somewhat incongruent. Newsagents, pharmacists and wharfies have, however, exactly the same objective—to defend and preserve their privileged position and prevent competition in order to protect their incomes.

No-one likes or appreciates the chill winds of competition when it threatens their livelihood and income. Yet, without the driving force of competition, the benefits delivered by market economies evaporate. Without the incentive provided through competition and the constant need to strive, improve and innovate, our economy and standard of living would suffer from atrophy. Or in other words, our economy would resemble the state of Australia's wharves over the last 40 years. Before governments extinguish the torch of competition, they should very carefully consider the consequences.

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REVIEW

H.R. NICHOLLS SOCIETY

*Reforming Australia's
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The Aims of the H.R. Nicholls Society

- To promote discussion about the operation of industrial relations in Australia including the system of determining wages and other conditions of employment.
- To promote the rule of law with respect to employers and employee organisations alike.
- To promote reform of the current wage-fixing system.
- To support the necessity for labour relations to be conducted in such a way as to promote economic development in Australia.

The 'R' Files

ALAN MORAN

Salary Caps and the AFL

THE Melbourne-based consultancy Affairs of State has recently published the football club affiliation of all Victorian MPs. The most popular club, Collingwood, also has the biggest supporter base but was at the bottom of the ladder as at mid-June. Collingwood and the other giant, Carlton, have each picked up only one premiership this decade.

There is no other sports competition in which the two best-supported clubs are performing so dismally. And the reason for this? The regulation of player salaries implicit in the policy of equalization which the AFL Commission adopted in 1986. This was borrowed from American football. It is designed to prevent wealthy clubs from using 'chequebook power to recruit the best players' and keep 'player costs within the reach of most clubs'.

The issue of salary caps in AFL has recently assumed great topicality. Former AFL Commissioner David Shaw was forced to resign over breaches of the salary cap during his tenure as President of Essendon. All clubs go to the limit in seeking to offer adequate remuneration to their best players but the AFL thoroughly scrutinizes packages to ensure that supplements for training, representation etc. are within bounds it considers acceptable.

As far as the players are concerned, the salary caps mean a reduction in income and a corresponding reduction in the attraction of a sporting career that is inevitably short compared with other sports or vocations. In this respect, it is akin to a wage ceiling. Imagine the reaction if a Paul Anderson, a Pavarotti or a Mick Jagger were to be limited in earnings by some sort of salary cap? How would their talents be allocated among the many seekers of their services? Supposing a Paul Anderson were to be told that he could not go to work for BHP for more money than Duke Energy were prepared to pay him, even though he was more valuable at BHP? Supposing a middle ranking executive at NAB could not be recruited by Westpac because it would break some form of wage cap that the banking industry itself had set?



Salary caps have adverse effects on the ability of the AFL to compete and provide the services that supporters wish to see in a number of ways. Importantly, these include denying supporters the capacity to have their support reflected in the calibre of players their club can attract. That apart, they may even be illegally anti-competitive—if the AFL Commissioner Graeme Samuel were to be wearing his National Competition Council hat. Although nobody has mounted a restraint-of-trade assault on the AFL regulation, the policy must surely be an impediment to competition.

Other mass spectator team sports reward their main employees according to the market demand for their skills. Soccer, baseball, ice hockey and even cricket are among the sports that have flourished as a result of open access and no effective restraint on player payment. The different levels of club wealth, while facilitating the on-going success of clubs such as Manchester United, Real Madrid or the San Francisco 49ers, have not prevented the rise and fall of other clubs (and it was less than 25 years ago that even the mighty Manchester United was relegated to the English Second Division).

A footnote on the Affairs of State data. The team with the largest politician support is Collingwood, the team which for so long was the favourite of the True Believers and which co-opted Paul Keating as its Number 1 supporter. Times change. Collingwood now has fewer Labor Party than Liberal/National party MPs as supporters.

Alan Moran is Director of the IPA's Deregulation Unit.

IPA

Why Buy a Piggery?

MICHAEL BACKMAN

The Keating piggery sale may well have been about buying influence—in Indonesia. But we still need to protect the health of our institutions.

THE Asian collapse provides some valuable lessons for Australia, the most important of which is that we must protect our institutions. They are the most valuable thing that we have.

In particular, we must be careful to ensure that our desire for closer economic relations with Asia does not lead to the Asianization, or even the Indonesianization, of our institutions.

We must also ensure that our political and corporate leaders behave with the utmost integrity and that measures are kept in place to force them to behave that way.

In April this year, a lot of attention was devoted to the piggery investments of former Prime Minister Keating. Just how a \$400,000 investment came to be worth \$4 million in a relatively short period of time continues to challenge observers. Just what did the purchaser, Indonesia's William Soeryadjaja, buy with that \$4 million?

From my knowledge of Indonesia and how Indonesian business people operate, I have no doubt that the Soeryadjajas thought that they were buying more than just a piggery. They were also buying connections with the Australian Prime Minister—a Prime Minister well known for his close links to President Soeharto.

Why such connections should matter to the Soeryadjajas can be seen from their history. The Soeryadjajas were one of Indonesia's richest families until 1992, when William's son Edward brought about the spectacular crash of his bank, Bank Summa. Edward had expanded it too aggressively. The bank had also illegally lent millions of dollars to Edward's other companies. The whole thing came tumbling down and Edward fled to Singapore, leaving his father William to pay off his debts.

The Soeryadjajas were estranged from President Soeharto but, after the Summa debacle, they were eager to get back into business. Connections, after all, count for everything in Indo-

nesia. Better relations were needed with Soeharto. So, what better way to achieve that, than to take Soeharto-friend Keating's troublesome piggery off his hands?

Now, I'm not suggesting at all that Mr Keating has done anything wrong, but there are a lot of unanswered questions about the piggery affair. The Asian economic crisis has demonstrated just how precious our institutions are—we cannot afford to have them, or our confidence in them, chipped away by such uncertainties. It is for this reason that the Government should seriously consider a full and open inquiry into the Soeryadjaja-Keating piggery affair.

There is another matter that springs both from the piggery affair and instances such as Soeharto's driver Bul Bul becoming a director of an Australian company. Section 229, subsection 3 of the *Corporations Act* prohibits those recently convicted of serious corporate fraud under Australian law or any other law, or who are undischarged bankrupts, from sitting as a director on the board of an Australian company.

But what about all those who come from countries where they never face conviction because they are well connected or are able to bribe investigators and pay off the judiciary?

Edward Soeryadjaja, fresh from running Bank Summa into the ground, took Keating's representative's place on the board of the formerly Keating-connected companies Danpork Australia and Euphron.

What on earth are we doing allowing someone whose banking practices in Indonesia which, if they had been carried out here almost certainly would have been subject to prosecution, to be appointed as a director on the board of an Australian company?

Other instances also raise the question, how is it possible to have people sitting on boards of Australian companies, whose wealth is derived from patronage and nepotism and whose companies elsewhere have, in various

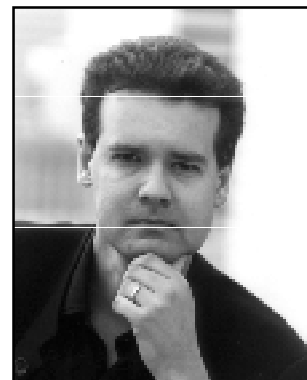
cases, been involved in a stunning array of improprieties?

Clearly, there is some scope for corporations law reform in this area. Our institutions are world class—but there is always room for improvement.

IN CONCLUSION

The economic crisis has given Asia a shock but, unfortunately, many of the old practices will continue. Asia somehow is 'different', and therefore doesn't need the sorts of checks, balances and means of accountability that the rest of the world needs; such things are not compatible with the consensual 'Asian way'—or at least that is the argument.

If Asia wants to join the world marketplace and get back on track for prosperity, it must dispense with the idea that there is an 'Asian way' when it comes to doing business. There are no alternatives to transparency, decency and the rule of law. Call it being 'modern', 'Western' or even being 'Australian'—whatever the label, the undeniable fact is that it works, and that is as much a lesson for us, as it is for Asia.



Michael Backman is author of *Asian Eclipse: Exposing the Dark Side of Business in Asia*. This article is an edited extract from his speech to the National Press Club in Canberra on Wednesday, 21 April 1999.

IPA

REVIEW

Genetically Modified Food

JOHN HYDE

Spreading fear of the future can be good for anti-business.

FEAR of genetically modified (GM) food has become so widespread in the UK that Sainsbury's chain of stores has undertaken not to stock it. I predict that in a few years the promise will be quietly forgotten. Nevertheless, for the present, the store's marketing department will know what it is doing. In spite of European Union restrictions that seem draconian to North American producers, the Blair Government is under pressure to do more to protect the same people who shrugged off Hitler's buzz bombs from tomato paste that the other side of the Atlantic Alliance is happily eating. Although Australia has pure food laws that are generally effective and trusted, we come late to the task of specifically regulating genetic modification as such. This, however, we are about to embark upon.

Because plants must protect themselves against their predators, much of what we eat, if ingested in sufficient quantity, would kill us. We therefore live with poisons and it is only prudent to be cautious about what we eat. Anxiety is a survival mechanism. People who start at every hare, squandering nervous energy and attention upon low-probability risks become, however, victims of their own neuroses. Perhaps some folk actually enjoy states of heightened anxiety, but their misplaced fears must engage resources that would otherwise be devoted to reducing the hazards that appreciably shorten lifespan or, and this may be worse, make long lives less worth living.

But anxiety is visceral and most people have extraordinary difficulty distinguishing likelihoods of one-in-a-thousand from likelihoods of one-in-ten-million. They worry about mad cow disease while driving their cars (badly). They suffer wildly disproportionate fears of the unfamiliar. In short, they possess traits that afford a ready market for the hysteria and nostrums of the scare-mongering industry. So mankind peppers itself with dire predictions and always has. These fears mostly come to nought. At the turn of the first millennium, ranting experts with long faces told the credulous that the Antichrist was about to destroy their crops, their chil-

dren and their hopes of an afterlife. At the turn of the second, when mortal life is more pleasant and an afterlife seems less probable, similar long faces tell us that we are poisoning our life-support system and ourselves.

Even in poisons, fashions change. When I entered the Federal Parliament in 1974, Rex Connor told me that uranium extraction was a huge potential benefit awaiting development. Before I lost my seat in 1983, Barry Jones told me that biotechnology was the new hope. Now I am told that even it has entered the service of the Antichrist.

I don't believe it. Man has been manipulating life forms since husbandry and

As GM crops already allow much reduced use of weedicides and insecticides, opponents ... are on a collision course with genuine environmentalists

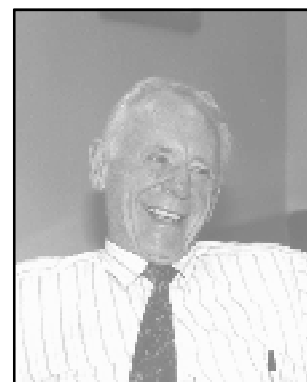
agriculture began. His methods were, however, slow and hit-or-miss. Plant and animal breeders combined large blocks of genes by mating individuals with differing desirable traits. Then the undesirable traits were eliminated by backcrossing and selection. More recently, plant breeders have irradiated seed to encourage mutation.

Following the discovery by James Watson and Francis Crick of the molecular structure of DNA in about 1960, biotechnologists have learned how to introduce genes to plants and animals with much greater precision and from species other than that of the host. This technology has become referred to as 'genetic engineering' and the term 'genetically modified' has come to refer to living or dead matter that carries genes introduced by 'gene splicing'. The likelihood of pro-

ducing a food with an unwanted, say, carcinogen is obviously less when such precise methods are employed. Nevertheless, it is this food that people have been encouraged to fear and which many say should be labelled as such.

Labelling is not, however, easily or cheaply done. Indeed it will probably be easier and more effective to label food that contains *no* genetically modified matter whatsoever. The advantages of reduced chemical usage and higher yields to be gained from genetically modified varieties are so large that, in 1999, about half the US soya bean crop and a quarter of the corn (maize) harvest will be of genetically modified varieties. If there is demand for non-GM foods, as there is for organically grown foods, then producers of it will identify their product. I hope they make squillions.

There are some environmental risks associated with the production of GM crops that are less improbable than those associated with eating them. Nevertheless, as GM crops already allow much reduced use of weedicides and insecticides, opponents of GM foods are on a collision course with genuine environmentalists. The risks of not producing GM foods are economic for Australians and nutritional for the Third World. More fundamentally, warnings about trivial risks merely devalue warnings that wise people would heed. Crying 'Wolf!' is not smart social behaviour.



John Hyde is a Senior Fellow at the IPA.

IPA

REVIEW

JUNE 1999

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**FREE SPEECH, FIREARMS AND THE RIGHT TO PRIVACY**

Ron Owen is gradually becoming a well-known name. Indeed, in the view of some, it is a name verging on infamy. His most recent crime? The operation of an Internet Website that has infringed a perceived right to some special people's privacy.

Those special people are politicians. His site, *Lock, Stock and Barrel*, includes Mr Owen's 'House and Garden' competition. He invites people to send him the addresses of serving politicians' homes, and photographs of said homes, along with their gardens.

The people at Our ABC aren't silly. They quickly worked out that this was more than a home beautiful site. Perhaps the site's links to the English Bill of Rights and the gun rights advocacy tipped them off. An ABC radio interview with Owen followed. This displayed an extraordinary display of intellectual inflexibility and an amazing piece of impoliteness, not on Owen's part, but on Our ABC's.

Briefly, Owen argued that he felt that as politicians exercise power over the rest of us, particularly over gun owners, their rights to anonymity should not be respected. He pointed out that many politicians avail themselves of an apparent right to have their names kept off the electoral rolls, and that while actually discussing matters with a politician holding a ministerial office is possible for journalists, the average gun owner will never have that opportunity.

The intellectual inflexibility was shown not in the interviewer's failure to be persuaded by Owen's arguments, but by the apparent complete lack of comprehension of the points Owen was endeavouring to make. The impoliteness occurred immediately after dismissing Owen. A commentary interview with a sociologist who was plainly antagonistic to Owen was conducted. This was along the lines of 'What did you make of his logic?—

'Incomprehensible!' Naturally Owen was not invited to respond.

Nine's *A Current Affair* also presented a film piece on Owen in a slightly more balanced way, although with overtones of a humorous/per-



sonal interest story rather than as a straight news piece. I was startled by this, but all came good (read: 'bad') at the end. Mike Munro was careful to point out that Owen had refused permission for his own house and garden to be filmed.

Mr Owen's Website is at:

<http://www.lockstockandbarrel.org>

The House and Garden competition page leads with Owen's own house and address, *contra* Munro's implication. Following are house and garden photos for David Dalglish, a member of the Queensland Parliament, who submitted them himself, saying that a representative of the people should be a part of the local community. As I write, there are apparently only two involuntary entrants, and not all the photos are working.

The interview with Owen is not available on transcript, but much of its flavour can be captured from a previous interview conducted by Our ABC's *The Media Report* in 1996. Our ABC provides free transcripts on the Web for most of its 8:30am Radio National shows. The easiest way to find this one is to go to:

<http://www.abc.net.au>

and type 'Ron Owen' in the box that allows searches to be conducted. That interview concerns Owen's print publication, *Lock, Stock & Barrel*, which as well as being strongly anti-gun control, also expresses a number of One Nationish sentiments, and had a number of issues banned for describing explosives manufacture. Agnes Warren, the interviewer, found 'it a bit hard to be fair and objective' during this interview because she found 'quite a lot of [the publication] quite frightening.'

DEMOCIDE

One element in pro-gun thinking is fear of government. It is this which led to the inclusion of the 'right to bear arms' in the United States Bill of Rights. Note that of the ten amendments to the US Constitution that make up the Bill of Rights, this appears in second place, with only the right to free expression ahead of it. Some constitutional analysts think that this indicates the importance placed upon these rights by the framers.

Should we fear government? It is hard to do so seriously when one has lived one's whole life in such a gentle place as Australia. Still, Professor R.J. Rummel has argued in such books as



Lethal Politics: Soviet Genocide and Mass Murder Since 1917 (1990), *Death by Government: Genocide and Mass Murder in the Twentieth Century* (1994), and *Power Kills: Democracy as a Method of Nonviolence* (1997), that some 169,198,000 people have been





murdered in this century by their own governments, or four times the number killed during this century's wars.

The essential arguments from Rummel's books are contained at his Website, along with some sample chapters, charts and, wonderfully, a statement about the site's credibility! Just one interesting fact gleaned from the site: Milosevic may be a horrid man, but Tito was responsible for the death of somewhat over one million of his fellow Yugoslavs. Go to:

<http://www2.hawaii.edu/~rummel/>

FREE-MARKET.NET

My, what an appropriate name for a site reviewed in a column called *Free_Enterprise.com*. It is worth looking at this site each month, if for no other reason than that it offers a monthly competition. All you have to do is register your e-mail address each month.



I had already written the section on Rummel above when I went to Free-market.net to capture a screen shot and discovered that the current prize on offer is Rummel's *Death by Government*. Indeed five copies are on offer to entrants. In other months there have been a free trip to Iceland (from the US, unfortunately) to attend the annual conference of the International Society for Individual Liberty, US\$500 in hard (as in gold) currency, and plenty of other books.

Free-market.net does more than

give away stuff. It carries a number of excellent articles, which are regularly changed, and links to its 86 Partner Organizations, including such well known ones as the Acton Institute, the Cato Institute and the Ludwig von Mises Institute.

Another useful reason for regular checks is its frequent updating of news with a free market or, more generally, pro-freedom bent. Thus the current issue points to an ABC News (the US one, not the Australian) story about the actual acceptance of an educational policy long advocated by free market luminaries such as the various members of the Friedman family: school vouchers. It turns out that the State of Florida, not content with reducing its crime rates by allowing the concealed carrying of firearms and changing its focus from drug law enforcement to crime enforcement, is introducing a partial voucher plan. This one will grade state schools. Families whose students go to those receiving a fail mark (possibly 170 out of the State's 3,000) will be issued vouchers redeemable by private schools.

Go to:

<http://www.free-market.net/>

Free-market.net is actually an operation of the Henry Hazlitt Foundation, named for the author of some twenty books on political economy, including *Economics in One Lesson* (1946). The first couple of chapters of this book are available from this site, with some of Hazlitt's other writings including the whole of his *The Conquest of Poverty* (1973). Go to:

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

A CORNUCOPIA OF SUBJECTS

IPA Review reader A. Gourley has submitted his or her own site for inclusion. The main feature is a lengthy five-part essay against governmental social engineering, with the second section drawing extensively on Frédéric Bastiat's *The Law*. Go to:

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



Impenetrability ... ah, don't we love it! The people at *Philosophy and Literature* do. So much so that they sponsor an annual 'Bad Writing Contest'. No, you don't pen something specially for it. But your published work may be selected. As the journal's editor says, 'this year's winners were produced by well-known, highly-paid experts who have no doubt labored for years to write like this.'

The start of the single, 94-word, sentence that won first prize will make you yearn for more:

'The move from a structuralist account in which capital is understood to structure social relations in relatively homologous ways ...'

Go to:

<http://www.cybereditions.com/aldaily/bwc.htm>

Peter Lawrence has written on taxation and other matters, including an analysis of the GST published during 1998 in *News Weekly*. This article and a number of other thoughtful ones may be found at:

<http://users.netlink.com.au/~peterl/publicns.html>

FEEDBACK

I would welcome advice from readers on any other sites of interest to *IPA Review* readers. E-mail me on scdawson@iname.com .

Letter from London

JOHN NURICK

New Labour, New Enigma

EARLIER this year, the news headlines had Opposition Leader William Hague calling on his party members to forget the past. You may think that's a strange thing for a Conservative leader to say; I certainly did.

What Mr Hague actually said was more nuanced: the Party must stop pretending nothing has changed since Mrs Thatcher's day. Mrs T became Prime Minister 20 ago after four years as conservative leader. As Mr Hague reminded us, 24 years before 1975, George VI was King, Clement Attlee PM, Winston Churchill was Leader of the Opposition, and nationalized industries were the shape of the future.

Certainly the Labour Party has changed far more since the Thatcher years than it did between the 1940s and the 1970s. What's not certain, though, is what it has changed into. After two years of New Labour government it should be possible to take stock—but I find the Blair Government almost as much of an enigma now as before the election.

It's not socialist. It's not liberal, in either the 'freedom and markets' sense or the 'be nice to criminals' sense. It's not conservative: it has instituted major constitutional changes before they were necessary and without knowing where they may lead. Ministers speak of a Third Way, but no one can explain what it actually is.

Shortly before his death, Max Beloff, writing in the Murdoch-owned *Times*,¹ compared the Blair Government to the earlier years of the Hitler government. He didn't expect Mr Blair to exterminate the Jews and invade Russia, but did point to some straws in the wind.

One is the way in which Mr Blair has compromised potential centres of opposition or criticism by binding them into the Government's orbit. For example, the Liberal Democrats have been almost neutered by their Leader's acceptance of positions on Cabinet com-



mittees. Chris Patten, a Conservative, is investigating the Royal Ulster Constabulary and is to report on future policing arrangements for Northern Ireland. Lord Wakeham, another Tory, is to chair the commission on House of Lords reform.

Another is the Government's all-out effort to flatter and win the confidence of business. Hitler appointed businessmen to party positions; Mr Blair appoints them to the House of Lords.

Constitutional reform appears to be a contrast: Hitler centralized; Mr Blair is devolving limited power, to elected assemblies in Scotland, Wales, Northern Ireland and Greater London. Max Beloff argued that 'devolution'—the scare quotes are his—will make Britain more amenable to party control than a unitary state would be. Certainly, Labour is far stronger in Wales, Scotland, and London than it is in the country as a whole. The national Labour hierarchy went to great lengths to ensure the election of a compliant Labour leader in Wales, and is expected to repeat the process in London.

Then there is the importance the Government attaches to presentation and its sensitivity to criticism. This began when Labour was still in Opposition and certainly helped win the 1997 election, but has continued in government—sometimes, it seems, from force of habit and the desire for even one evening's favourable TV headlines. For instance, in his latest budget speech, the Chancellor, Gordon Brown, trumpeted his new income tax rate of only 10 per cent on the first £1500 (above the tax

threshold of about £4300), and cutting the standard rate from 23 per cent to 22 percent from next year. This caught the headlines, and it was only later that we realized something Mr Brown hadn't mentioned: he was abolishing the present 20 per cent starting rate, thereby increasing tax on the slice from £1500 to £4300.

Nor did the budget reveal much about the Government. *The Economist* said it was 'so subtle that nobody can divine whether, why, or how much [the] government believes in redistribution'. Certainly the Government has done a very good job at controlling public spending—but is it doing this out of conviction? There is a lot of rhetoric about reducing the burdens that government imposes on business—but the tax and regulatory regime is actually becoming more complicated, for instance by the record-keeping required by the new minimum wage law.

Finally, there is the contempt Mr Blair and key colleagues show for Parliament. There are many, many examples of this, starting with Mr Blair's own abysmally poor voting record in Parliament and his failure to show up for resignation speeches of displaced ministers. The Dorothy Dix questions that Labour whips issue to pliant backbenchers plumb new depths of servility and triviality. The Government allowed Parliament to debate the bombing of Serbia but refused to allow the debates to end in a vote because this would have given dissident backbenchers a chance to stand up and be counted.

Sensitivity and contempt were neatly packaged last February when the House of Commons select committee on foreign affairs reported on a minor scandal involving arms being supplied to Sierra Leone in contravention of a UN embargo. The report criticized ministers and, especially, the Foreign Office. The committee chairman, a Labour MP and former diplomat, commented that a department with 'a Rolls-Royce reputation' had performed more like 'an old banger'.

Government spokesmen began denying the report the instant it was published if not before. Mr Blair told Par-

REVIEW

Abuse on the Way Out?

WALTER STARCK

liament that it was unfair to public servants who could not answer back; the report's criticisms were a 'counsel of perfection' with the benefit of hindsight. It later emerged that a Labour MP on the select committee had—against all the rules—given the report to the Foreign Office in advance, leading to fears that the Government had 'moles' on other select committees too.

Then, a few days after Max Beloff's Nazi comparison, New Labour did take a step towards the concentration camps: it wants to lock people up in case they commit a crime.

As the law stands, and oversimplifying slightly, someone with an untreatable personality disorder cannot be locked up until he has committed a crime—even if everyone agrees he is a dangerous psychopath. To overcome this, the Government proposes to build 'specialist units'—neither prisons nor mental hospitals—for such people and to provide a legal and administrative framework under which they can be detained.

Fair enough, you may say. There should be some means of protecting the community at large from dangerous psychopaths. Nevertheless, it is an alarming inroad on civil liberties to propose locking people away not for what they have done but for what authority fears they might do, especially given the difficulty that psychiatrists, courts and lay people have in telling the dangerous from the merely difficult.

One is reminded not only of concentration camps but also of the Soviet psychiatrists who defined dissidence as mental illness (and one suspects that one or two of Mr Blair's associates day-dream of locking up Old Labour dissidents and throwing away the key).

Of course, nice Mr Blair wouldn't do that, would he? I think not, but honestly I am not certain where he would stop if he thought it would help win the next election. That is the only thing I am sure this government stands for.

NOTE

- 1 'Third Way, or Reich', *The Times*, 9 February 1999 (available at <http://www.sunday-times.co.uk>).

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

IPA

I READ with interest Michael Warby's article in *The Australian* ('Low tactics mar towering opinions', 14 May 1999—see *From the Editor* for a more extended version). As a scientist who has publicly disagreed with the false and illogical claims and myopic perspectives put forth by some of the self-anointed saviours of our environment, I have experienced first-hand the phenomenon to which Mr Warby refers. Confronted with fact and reason contrary to their position, and which they cannot easily refute, they immediately respond with personal attacks.

Curiously, while they express great concern over a problem, they also seem deeply committed to it, in and of itself. Any suggestion that their avowed concerns may be unfounded or less serious than feared are not greeted with hopeful interest but rather anger and outrage. To disagree is not possibly to be mistaken but rather clear evidence of wilful evil.

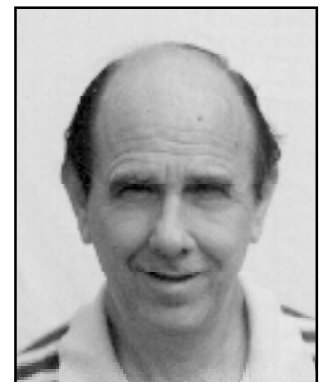
Two elements which appear to have contributed strongly to this style of debate are the increasing irrelevance of many of the cherished canons of belief embodied in the traditional humanities and the ever-increasing competition for attention among the media. Much of what constitutes the humanities is comprised of closed, untested, ideologically-based concepts which are increasingly hard to sustain in the light of knowledge derived from more open, tested, empirically-based enquiry.

Unable to sustain their beliefs in the face of facts, logic and open-ended objectivity, they have resorted to something called 'deconstruction' wherein they attempt, through sophistry, to deny the very existence of facts, logic and objectivity. This is a very intellectually weak position, so, in order to obscure and deter any dissent, it is accompanied by vicious personal attacks. With this kind of anti-intellectual claptrap rampant in academia, it is hardly surprising that it is becoming prominent in public debate as well.

With more and more options for and demands upon our attention, news media are driven to strive for the dramatic and controversial to grab our interest. Extremist claims, conflict and personal attacks are given prominence, and a degree of apparent credibility, regardless of any probable validity.

Despite all this, I am optimistic that, despite our tendency to cling to cherished delusions long past their 'use-by' date, there does seem to be overwhelming evidence for an objective reality which exists and persists irrespective of anything we may or may not choose to believe. To the extent that our ideas of the world coincide with that reality, things tend to go more smoothly for us. When they don't, we keep bumping our heads. Humans have an amazing capacity for denying reality long past the point of reason, but they also have an equally surprising capacity to suddenly abandon non-working ideas which, to all appearances, have become permanent fixtures. Witness the collapse of communism.

Somehow, I suspect that what we are witnessing here is simply the dying flurry of old ideas which, no matter the desperation of their defenders, are doomed to collapse in the tidal flood of new understanding.



Dr Walter Starck is a sometimes scientist, explorer, writer, filmmaker, inventor and businessman who has lived in the Daintree rainforest for the past 20 years.

IPA

Compiled by IPA staff, columnists and consultants ...

PICK YOUR PROHIBITION

The Australian of 4 May 1999 ran a piece on a 'T-Room' or 'tolerance room' at the Wayside Chapel in Sydney's Kings Cross. In this we read a description of one Nick laying out his hypodermic, swab, tourniquet and foil of heroin in this 'safe haven'. He reaches for a calming cigarette to be told sternly by the nurse in attendance 'You can't smoke here' pointing at the 'No Smoking' signs. He 'guiltily' puts the packet away.

Heroin is OK but tobacco is *verboten*. The illegal is allowed but the legal forbidden in the modern Uniting Church.

The weird thing about this is one can actually see an underlying logic. Used hypodermics aside, injecting heroin is a private act, smoking is—particularly in a confined space that someone else has to clean—a semi-public one. If only one thought that the Wayside Chapel understood that logic itself. Alas, one suspects it is all about embracing addicts as an 'oppressed minority' while enforcing health fascism against tobacco. A display of fashionable attitudes rather than something resembling thoughtful application of reason.

A NUMBERS PERSON'S NIGHTMARE

The NSW Legislative Council is the oldest legislative house in Australasia. It was also the last one to be fully democratized. But democracy—of a sort—has now arrived in a big way. While Labor Premier Bob Carr may have won a large victory in the lower house against an even-more-than-usually incompetent NSW Liberal Opposition, he now confronts the upper house from numbers-land-nightmare.

The Legislative Council has 16 ALP members, nine Liberal and four National, a total of 29 from the major parties. The remainder are the Rev. and Mrs Fred Nile, two Greens, two independents, one Democrat, one Outdoor Recreation Party, one One Nation, one Unity (an anti-One Nation group, presumably they will just cancel each other out), one Shooters Party, one A Better Future for Our Children and one Reform the Legal System. Thirteen members representing nine Parties plus two independents, at least six of whom have

to vote with the Government for any bill to become law.

It is enough to get any numbers man from the NSW Right crying into his beer.

... AND ONE SOLUTION

Meanwhile, the UK's House of Lords is even older and even less democratically selected than the Legislative Council. The British Labour Government has introduced proportional representation for elections to the new legislative assemblies in Scotland, Wales and Northern Ireland and for elections to the European Parliament.

So it should come as no surprise that Labour's submission to the commission on reforming the Lords argues for an upper house that is 100 per cent appointed. The present House of Lords cannot block legislation, only delay it for a year or so; Labour wants the reformed house to have even less power to thwart the elected dictatorship.

MODERN CHOICES

If you knew a woman who was pregnant, who had eight kids already—three of whom were deaf, two of whom were blind and one of whom was mentally retarded—and she had syphilis: would you recommend that she have an abortion?

If your answer was 'yes'—congratulations, you just killed Beethoven.

It is time to elect the world leader, and your vote counts. Here are the facts about the three leading candidates:

Candidate A associates with crooked politicians, and consults with astrologers. He's had two mistresses. He also chain smokes and drinks 8 to 10 martinis a day.

Candidate B was kicked out of office twice, sleeps until noon, used opium in college and drinks a quart of whisky every evening.

Candidate C is a decorated war hero. He's a vegetarian, doesn't smoke, drinks an occasional beer and hasn't had any extramarital affairs.

Which of these candidates would be your choice?

(Candidate A is Franklin D. Roosevelt.
Candidate B is Winston Churchill.
Candidate C is Adolf Hitler.)

DISAPPEARING BOYS

While some feminists give the impression that they think a world with fewer boys would be a better place, other progressive souls are ready to get us all worried about their disappearance. Since 1970, the ratio of male-to-female births in the US has dropped. According to the latest 'the sky is falling' book, *Our Stolen Future*, 'endocrine disrupters' in commonly used plastics and pesticides are to blame.

The problem with this latest scare is that sex ratios go up and down—the overall US sex ratio fell steeply from 1946 to 1962, rose rapidly to 1970 and then fell again, a pattern which does not conform to any known chemical release or use pattern.

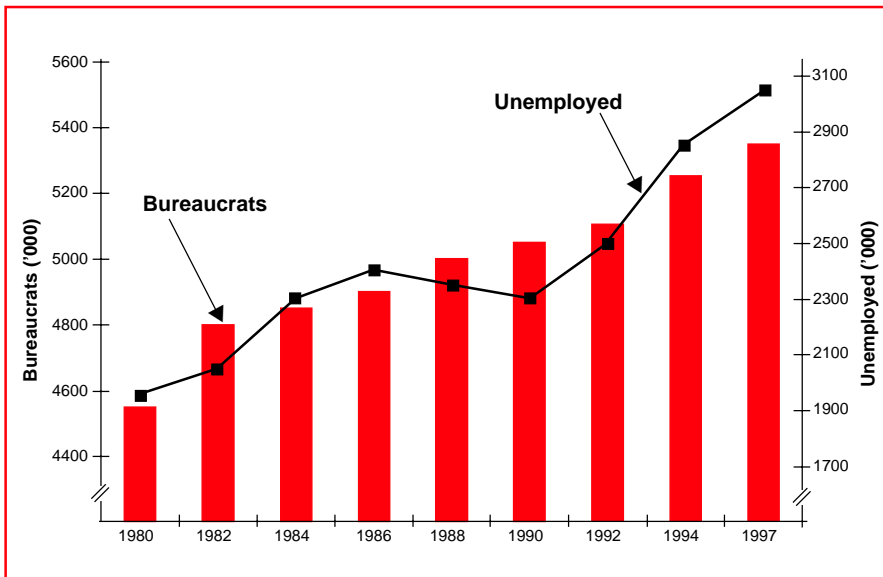
Even more to the point, different populations within the US moved in different directions. Black sex ratios fell steeply from 1946 to 1952 and have been climbing pretty steadily since.

As the Cato Institute journal *Regulation* says, 'the "disappearing boys" scare appears to be nothing more than another case of bad or incomplete science being used to justify an ideologically desired conclusion.' Or something—one of the authors of *Our Stolen Future* is an environmentalist fundraiser. And disappointed parents of daughters and hopeful parents of sons would be a great target market ...

PRODUCING BUREAUCRACY

A recent book, *Abus de bien public*, by Louis Bériot—a former senior executive of the French national television station France 2—has blown the whistle on the out-of-control French public service. France may have 300 varieties of cheese, but it has 1,700 varieties of public servants. If you count the public enterprises, there are over six million people on the public purse. In 1914, it was one for 103 inhabitants, now the figure is one in ten.

When the number of farmers halved between 1960 and 1995, the number of public servants in the Ministry for Agriculture more than doubled. When the number of school students, between the ages of 2 and 22, grew in 20 years by 120,000, the number of employees in the Department of National Educa-



tion increased by the same number—120,000. And conditions are good. Perhaps the most notorious are those of train drivers. They have an annual salary of around A\$55,000 for an average of ten hours of driving per week. They retire at 50, and will have an indexed pension, like all other public servants, of between 75 per cent and 85 per cent of their previous salary for life.

In eight years, between 1990 and 1998, the public service drain on state revenue went from 41 to 56 per cent. Neither the government nor the parliament are today capable of controlling either the salaries—which augment automatically by 2 per cent each year even before salary negotiations—or the numbers—which are already 8 per cent above budget authorization. Bériot publishes an eloquent graph (reproduced above) that shows an almost perfect relationship between unemployment and increases in the public service. It has been calculated that this extravagance costs France about 50,000 jobs, a figure confirmed by the Ministry for Industry. But one should not worry for the future. In 1998, Prime Minister Jospin appointed a former senior public service unionist to head the public service.

LIVING OFF YOUR OWN

The horrific South Australian mass murder and welfare fraud provided Australians with further evidence (if any more was needed) of the enduring reality of human evil. The ABC, ever-

trustworthy in these matters, provided its own explanation. As cited in Piers Akerman's *Daily Telegraph* column of 27 May, former ABC journalist and now South Australian correspondent for *The Australian*, Matthew Abrahams, when interviewed on ABC Radio (2BL Sydney), gravely informed listeners that

It was normal lives for the people living in an area that has chronic unemployment for generations, probably one of the nation's highest youth unemployment rates; people who live in the Twilight Zone that has been created, I suppose, by economic rationalism ... more than 10 years, I suppose, 20 years.

These are people who, you know, as Australia marches forward into the brand new glittering century, have been left behind.

Of course, the courts are just full of murderous welfare entrepreneurs collecting the cheques of corpses. And even the general history is pathetic—unemployment has been entrenched since 1974, the labour market has not been reformed, indeed it has become more regulated (apart from some very limited windback recently), and governments have been driven to market reforms to cope with the ever-rising fiscal burden of the welfare state.

The quality of comment on 'our' ABC.

ACCOUNTABILITY? NOT US!

Apparent proof of the power of the IPA was provided by a letter to *The Austral-*

ian from Kirsten Garrett, staff-elected Director of the ABC (19 May). Ms Garrett complained that the IPA was 'threatening' the ABC. How so? Because, in a letter to members of the ABC Board accompanying a copy of the IPA's recent study of ABC TV News' coverage of the waterfront dispute, the Director of the IPA's Media Monitoring Unit, Michael Warby, had said that 'one could argue that the lack of effective and respectable accountability procedures for the ABC would make resort by a dissatisfied government to budgetary pressure more likely'. Ms Garrett implied that this was an attempt to intimidate the ABC in any future coverage of a story involving the Government and noted that 'the financial sword is still hanging over the ABC'.

The fact that the real message was that better accountability procedures would ultimately protect the ABC clearly went straight over Ms Garrett's head. And any suggestion that the ABC's income should be dependent on its performance is beyond the pale. Apparently, 'our ABC' and its staff are not be judged by the same criteria as ... almost all those who actually *pay* for the ABC have to live with throughout their working lives.

Of course, if it is not properly accountable, it is not 'our' ABC at all. Which, we guess, is how Ms Garrett would like to keep things. So, perhaps she is being a good politician—looking after the interests of her (unaccountable) constituency.

MAY THE SPELLS BE WITH YOU

It was recently reported that the United States Army has recognized white witchcraft as a religion and has appointed chaplains to oversee pagan ceremonies on at least five bases. At the US Army's largest base (Fort Hood, Texas), where at least 100 personnel apparently attend covens, security was increased at Fort Hood's Boy Scout camp, where covens are held.

The move is to deter members of Christian groups from intimidating the group. The pagans, called Wiccans, are accorded the same privileges as practitioners of Christianity, Judaism and Islam. They are encouraged to have their religious preference stamped on the metal dog-tags each soldier wears—pentacles, presumably.

Jobs Created ... and Destroyed

GRAEME HAYCROFT

The unemployed need jobs. Unfortunately, many people are employed to make sure they are less likely to get them.

AS someone who actively works with over 100 small and medium-sized businesses supplying almost all their short- and long-term labour needs, I see all the little processes that lead to both the creation and the loss of jobs. As a result, I tend to have a different perspective from the people who never get close enough to any workplace to see what actually happens but are paid handsomely to pontificate about them. Most of these people are unable to articulate the core of our unemployment problem and its fairly obvious solutions.

Let me first define in its essence what a job really is, then I will suggest how we would really know if anybody was actually employed. The best that can be said of the current official definitions is that they are 'the musing of fools'. For instance, working for the dole: this is where some unfortunate is paid by the Government to fill in time actually avoiding doing anything that in the normal course of events someone else might find useful enough to pay to have done. This is neither working at a job nor employment in any real sense.

A job is simply a set of tasks done by someone that someone else is prepared to pay to have done. How much a person will receive for their labour will depend upon a number of factors. First is the value that the payer can ultimately gain from the consequence of the task's completion. Second is the competition that the worker faces from other workers also wishing to perform those tasks for reward. For instance, former Westpac chief Bob Joss was paid millions each year to fix Westpac's woes. There is probably no more than a handful of people in the world with Joss's skills and accordingly they all charge millions for their services. At the other end of the scale, every business gets dirt on its floors. Although having clean floors is a valuable business asset, having them cleaned is not highly paid work because

literally millions of people can work a broom or a mop.

Next, whether a person's job or jobs can be called 'full employment' depends simply upon whether the job or jobs constitute as many hours of work each week as that worker is satisfied with or in any event pays more than a livable amount—remembering that the dole is deemed to be a livable amount.

Compare these simple definitions of who is really employed or not with the nonsense that our political leaders have been parroting to us—for example, the claims that people on training schemes, and people who do five hours of paid work in a week, are not unemployed.

A job is simply a set of tasks done by someone that someone else is prepared to pay to have done

What rubbish! By some accounts [Ian Henderson, *The Australian*, 12 February 1999, 'Required urgently: a serious job creation program'] there are 2.5 million Australians who want more jobs, or more paying tasks to do.

Now, by any definition, even a half or a quarter of this state of affairs would be a moral and social outrage. Its consequences are ripping at the very fabric of our egalitarian society yet it seems the current wisdom is that we solve the problem by cooking the country's economic books to fire up the economy to

make what I call the 'business-employment equations' more viable. These types of solutions have been tried repeatedly over the last 20-or-so years and they sometimes generate more jobs in the short-term. When the spending spree is over and businesses cop the consequences of higher taxes and and/or interest rates, however, then the unemployment rates traditionally return to even higher levels than before.

THE WORK EXISTS

The time has come for some honest action to address the unemployment problem where it actually is and not where our pontifical experts think it might be. There are literally millions of jobs just waiting out there in the workplace. Just ask any small-business proprietor how many things they could have done by someone that would make them money—but only if they could get those things done for the right price. The problem is that a vital ingredient called 'profit' is missing from the equation.

No-one, except governments of course, is going to pay anyone to do anything unless the reward from the work's consequence is greater than the cost of doing it. Of course, the introduction of technology that costs money and is interest-rate dependent can reduce those unit labour costs and make many new tasks profitable. That is why government low-interest-rates policies are far more useful to the employment equation. All those phoney job-creation and training, work-for-the-dole, and—the biggest disgrace of all—recruitment-subsidy schemes which shameless governments promote as employment generation measures, simply waste taxpayers' money.

But technology alone doesn't address the real problem, particularly for the unskilled unemployed who probably represent about 90 per cent of the total.

The biggest problem is that the levels of skill and application of these peo-

ple are such that they are either incapable of performing the tasks that will lead to a profit or, if they are, then the Government specifies that they must be paid more than the market would value their work effort. If markets perceive something is priced above its value, then markets simply don't buy. Ergo, these people don't work.

Make no mistake, the essence of our unemployment problem is a direct consequence of current government policy that forces these poor unfortunates to charge more for their services than they are actually worth. High unemployment isn't something that's slipped through Customs or is a function of some overseas economic 'meltdown'. It's home grown entirely—governments generate the problem. And, to make matters worse, the very policies which have led directly to these disgraceful unemployment levels, particularly for the unskilled, have nearly all been implemented in the name of trying to protect these unfortunate people from—wait for it—exploitation.

Under the Government's skewed definition, a worker who regularly works, say, 50 hours a week, for less than what they would receive if they were receiving all the supposed employee benefits of overtime, penalty rates, etc., etc. would be regarded as being exploited—even though that person regarded himself or herself lucky to be earning so much.

A worker unable to secure employment because the added cost of government-mandated entitlements to a potential employer prices that worker's limited skills out of the market is, however, not exploited.

As Dame—or is it now just Mrs?—Edna Everidge would say, 'Spooky'.

But here is the truth. The vast majority of industrial relations paraphernalia is ostensibly designed to protect the weak and less-skilled workers from the risk of what is 'spookily' defined as exploitation—that is, a job paying them what they are worth in terms of their limited skills. Most of it has precisely the opposite effect to that allegedly intended. It is these supposed 'protections' which, ironically, are at the core of our unemployment problem. The fact that these workers might learn something from a work experience is tacitly acknowledged as the rationale of these innumerable and useless government job-and-training schemes. Apparently, if the taxpayer is paying and the worker is not actually doing anything of value to a business then it's OK. If they are

doing something that a business values enough to pay for, but it's less than some government-mandated minimum, then it is bad. Again 'spooky'.

It's the added cost of these supposed worker protections that a potential employer must factor into the employment equation.

It's the extra cost of penalty rates and overtime mandated for the times that the worker's labour might actually be needed. It's the cost of regularly paying a 'permanent' employee during scheduled hours for time when there is no

It is these supposed 'protections' which, ironically, are at the core of our unemployment problem

productive work to do. It's the cost of increased liability for actions that should be the responsibility of workers. It's the inflated costs of workers' compensation to fund malingeringers and workplace-safety bureaucracies. It's the utterly indeterminably high potential future cost of an 'unfair dismissal'—more likely in the case of unskilled workers—which has to be factored into the employment equation. It's a bunch of other things that in practice don't deliver a tangible benefit to anyone in the workplace but which all cost money.

These things don't enter into the decision to employ a Bob Joss, but the further down the ladder you go, the more significant these extra costs become. The bottom 10 or 15 per cent of our workforce in terms of skills is simply priced out of the market as a direct result of them.

I have no doubt what the answer would be if we asked every single one of the unskilled unemployed this question: 'would you rather have a job with none of the entitlements and protections, or would you rather stay on the dole so that the people in work can enjoy them?'

As a matter of equity, that alone should be reasoning enough to abandon most, if not all, of the ideological non-

sense which embuggers the employment equations. Commonsense indicates, however, that at the least we should be focusing our energies at what is causing the problem at the business level and not just at the macroeconomic level.

EXPERIENCE SPEAKS

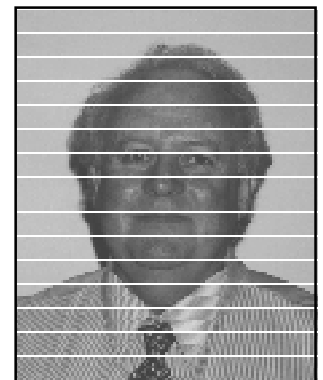
My company's experience with contract labour and the simple elimination of penalty rates, overtime rates, minimum and maximum work times and inflated workers' compensation premiums proves that you can dramatically change the employment equations where it counts at the enterprise level. You don't have to pay people less than the officially mandated minimums to make labour costing viable and to generate real jobs that give people the dignity of continuous full-time work. If this is exploitation, it's a sobriquet I'll proudly wear.

There is a current view that government economic actions—other than for policies that lead to reductions in interest rates—can help unemployment. They won't. There is also a current view that government-mandated minimum work conditions and entitlements, which raise labour costs, don't impact negatively on job creation. I'm sorry, they do.

Unless we extirpate these heresies then we are doomed to nurturing an underclass who by their very existence demean our claim to be proud of our country and its traditions of fair play.

Those unemployed people are Australians too and they deserve a fair go. They deserve an opportunity of a real job.

What they don't deserve is the current government employment policies that deny them that.



Graeme Haycroft is the managing consultant with Labour Hire Australia.

I P A

Should Negative Gearing Be Abolished?

NICK RENTON

SOME academic commentators and the social welfare lobby regard negative gearing as primarily a tax avoidance device. They were thus disappointed when the Coalition's tax reform package did not even mention the subject.

First of all, some background: *negative gearing* is the situation when an investment is purchased with the assistance of borrowed funds and where the rental or dividend income (after the deduction of expenses) is less than the interest commitment in the course of a year.

For income tax purposes, such negative net income can usually be offset against any positive income from other sources.

Many critics feel that this is unfair. They therefore call for the 'abolition' of negative gearing. Presumably, they really mean that they want a change to the tax rules, rather than the literal abolition of negative gearing itself.

It may not always be realized, but borrowing in order to undertake productive investment actually helps economic growth because value is being added.

Inevitably, there will always be some investments which have lower returns than the interest bill on the loans undertaken in order to acquire the investments concerned—for example, because of start-up periods or because things did not work out as planned. This economic fact of life has nothing whatsoever to do with tax.

A typical property investment, for example, may start off with a large loan and low rent. As time goes by the loan is paid off and the rent increases. Overall the investor makes a profit and the tax office gets its share of this.

Actually, there is not as much loss of revenue to the authorities, even in the early years of a transaction as most critics believe, because for every dollar of interest claimed as a tax deduction by a borrower there is a corresponding dollar of interest assessable to a lender.

Admittedly, the same rate of tax will not always apply to both legs of the transaction, so there is no doubt some leakage of revenue in practice. In some cases, this can be relatively large, as where the lender is outside Australia and thus subject to withholding tax at only 10 cents in the dollar.

But, in other cases, the borrower may be an ordinary Aussie battler on less than the top marginal rate of tax but still keen to have a tax saving, while the lending institution will, through the imputation system, effectively include recipients paying the top marginal rate of tax.

The borrower may be an ordinary Aussie battler on less than the top marginal rate of tax but still keen to have a tax saving

Furthermore, by the time the borrowing becomes positively geared it is probable that—because of bracket creep—many of the above-mentioned Aussie battlers will themselves have become subject to the top marginal rate of tax.

Investment is normally engaged in as a profit-making exercise—and one which puts the investor concerned at some risk. If profits are to be taxed then, as a matter of morality, losses ought to be allowed as a legitimate deduction.

In any event, the phenomenon of different tax rates applying to the pay-

ers and recipients of interest can apply to all types of borrowing and not just to negative gearing situations.

A LITTLE HISTORY

Now for some history. Legislation abolishing tax deductibility for interest on negative gearing property transactions was actually enacted in 1985, when Paul Keating was the Federal Treasurer. The move was made two months ahead of that year's Budget, itself an indication of how seriously the then government regarded the matter.

The new law covered only transactions entered into after 17 July 1985, the date on which the measure was announced.

The approach used involved quarantining all interest in excess of the net rent (gross rent less expenses). There was, however, a right to carry forward any undeducted amounts for use in a subsequent year, to the extent that interest was then less than the net rent.

This legislation was repealed in the 1987 Budget, with effect from 1 July 1987.

The 1985 legislation had a number of anomalies—for example:

- It did not extend to non-property situations, such as negatively geared share portfolios.
- It did not cater adequately for certain situations where some elements were subject to the pre-1985 rules and others to the post-1985 rules.

Far from helping low-income house purchasers and tenants, as most commentators had expected, the abolition of tax deductibility for some interest led to a further round of increases in house prices and rents.

While investors certainly stopped buying residential properties in the affected categories in competition with real end users, a factor which reduced demand, they also stopped building new ones, a factor which reduced supply. The latter factor outweighed the former.

Because the rules applied only to new lending arrangements instituted

after the date of the announcement, tenants were particularly badly hit, as most properties which changed hands after that date passed from investor-owners to owner-occupiers rather than to other investors who, with negative gearing, would have been willing to be landlords.

Possibly the introduction of capital gains tax a few weeks later on 19 September 1985 did not help either—although, of course, this levy affected assets at large and not just negatively geared real estate.

Ironically, the restoration of tax deductibility two years later, far from restoring the status quo, led to a *further* increase in house prices and rents. The investors who had stayed out of the market for that period then re-entered the market in an endeavour to catch up, and this raised house prices (and thus also rent levels). The loss of two years' worth of new construction, of course, could not be reversed overnight.

SWINGS AND ROUNDABOUTS

In a sense, under the present regime, the authorities get their pound of flesh each year. As pointed out above, for every dollar of tax deduction for interest paid by a borrower there is also a dollar of taxable interest received by a lender.

Furthermore, the tax losses in the early years of the ownership of any negatively geared property will, if the investment turns out as intended, be more than offset by the profits in later years.

Over the lifetime of a property transaction, from purchase to eventual sale, the investor will have had a number of dollars in (rent and sale consideration) and a number of dollars out (purchase price, expenses and interest). The difference between the two, representing the total profit from the transaction, will have been taxed either as ordinary income or under the capital gains tax rules.

Of course, governments from either side of politics may one day act against negative gearing for two sets of quite separate reasons—economic and social:

- they like to get cash up front—they would rather have a dollar of tax for the current year's budget than two dollars for a budget down the track (especially as the other political party may be the one in power at that time); and
- almost by definition, negative gearing is engaged in only by those who already have some wealth and, therefore, any loss of revenue under the present regime is occurring at the expense of low-income groups.

With luck, any legislative changes would distinguish between those who set out to use negative gearing intentionally and those who encounter it completely unintentionally—for example because:

- interest rates rise after a loan has started;
- rent levels fall after a loan has started;
- rental income ceases in respect of a particular property when it becomes vacant;
- market conditions force an owner to give a tenant a rent-free period in order to induce that tenant to enter into a new lease;
- of a practical necessity to make certain repairs; or
- of bad debts.

To deny persons who are making commercial losses in such circumstances a tax deduction would be to inflict a double whammy on them and simply to increase their hardship unduly.

Whenever governments set out to plug alleged loopholes the danger arises that the legislation may have unintended side-effects.

One final point: Moving against negative gearing might make the social welfare lobby feel better, but it would not be the panacea that its supporters expect. The revenue to be raised by any measures to curb negative gearing cannot really be estimated from an examination of current trading patterns.

Once any new laws are on the statute book people will change their investment behaviour and the actual increase in tax collections will undoubtedly be much smaller than critics of the present system seem to assume.



Nick Renton is the author of *Negative Gearing and Family Trusts* (Wrightbooks) and wrote on family trusts in the May 1998 edition of the IPA Review.

Musing...

The Meaning of Liberalism

JOHN HYDE

While reading Robert H. Bork's book *Slouching Toward Gomorrah*, I have been struck by many important things. One of the less important has been the difficulties we sometimes have in communicating because we use words differently.

No doubt in a manner that is consistent with American usage, Bork writes of traditional or classical 'liberalism' as a philosophy based on freedom from constraint. His liberalism, before it was subverted, was viable because it was, he wrote, 'tempered by opposing authorities and traditions'.

In contrast, I tend to regard liberalism as a philosophy based on personal responsibility. To me, liberalism is in aggregate no less constraining than socialism or conservatism and may be more so. What distinguishes my liberalism is that the individual is expected to carry the can for his errors, to be personally charitable, and to receive kicks in the bum from that harshest of all task masters, a guilty conscience. The necessary discipline is built into the philosophy and self-indulgent libertinism is not liberal.

The difference is, of course, purely semantic. Bork is well aware of it, and writes clearly about it. Australian readers of less comprehensive works that do not have the space to define their terms should, however, be aware that 'liberalism' can be employed to describe a highly disciplined way of life. The distinction matters to those of us who are sometimes asked to explain where we stand on life and the universe in five, or even five thousand, words.

John Hyde is a Senior Fellow of the IPA.

IPA

Black and White

RON BRUNTON

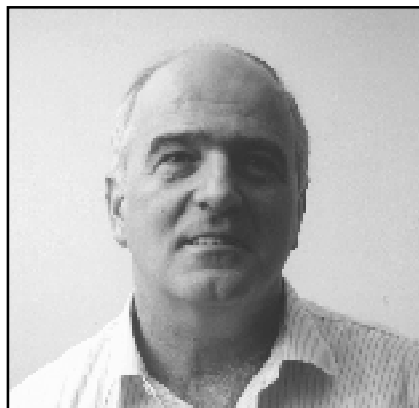
Applying Anthropology

SPENDING five days with around 1000 anthropologists is probably not any normal person's idea of a good time. Usually it wouldn't be mine either. But my wife and I have recently returned from a conference in Tucson, Arizona, held by the Society for Applied Anthropology (SfAA). It gave us a sense of the current highs and lows of the profession, particularly its American incarnation.

The SfAA's strength lies in bringing together academic anthropologists with practitioners working in private industry, government and community groups, thus tempering the current tendency of many university-based anthropologists to part company with reality. As well as involvement in more traditional areas—such as community development and indigenous land and heritage issues—applied anthropologists are now working on projects as varied as attempts to address public fears about the introduction of potentially beneficial technologies, and the design of greeting cards catering for cultural diversity.

Certainly, the tempering effects of this practical activity can be exaggerated. Academics still outnumbered others at the conference. A number of the non-profit organizations which welcome applied anthropologists encourage a view of the world that is just as delusory and leftist as the most politically-correct university *milieux*. Some of the anthropologists working for corporations seem to share their academic colleagues' strong dislike of private industry, giving the impression that they would much rather be advocating wealth redistribution and destruction than working in the bellies of wealth-creating beasts.

So the lows were as bad as any to be found in Australian anthropology. Many papers offered a disagreeable porridge of pretension, posturing, political correctness and misrepresentation. Sitting unrecognized in one session, an anthropologist whose careful research has played a major and honourable role in exposing a Hindmarsh Island-like fraud



in California heard himself being denounced as a 'racist', a totally unfounded and particularly damaging accusation for someone whose livelihood comes from working with Native Americans and migrant labourers.

'Globalization', 'free markets', and economists proved very unpopular, although 'economic rationalism' as a bogey term does not seem to have taken hold in American anthropological discourse. Titles and abstracts in the conference programme enabled us to avoid some truly unpromising sessions, such as 'Queer life matters: applying lesbian, gay, bisexual and transgender anthropology', a sub-field of the discipline whose existence I had hitherto not even suspected. But it was still possible to be beguiled into attending some real horrors by abstracts which bore little relation to the actual presentations. Expecting to hear papers dealing with problems of common property, my wife sat through a rambling anti-nuclear rant in which a professor selfishly took up virtually all the time allotted for the other presentations.

A plenary session on 'Affirmative action in higher education'—with the presidents of Arizona's three major universities and 'state and local leaders' in supposed 'dialogue'—turned out to be an eight-person panel in furious agreement about the need to defend the wonderful benefits of affirmative action programmes from attacks by the wicked. The session provided a nice illustration of the dictum that nothing distresses the champions of 'diversity' more than intellectual diversity on their totem issues.

I would have liked to ask the university presidents what they were doing to bring the numbers of political conservatives on their faculties up to levels that would approach the percentage that exist in the American population as a whole. But the temptation of mariachi music and Native American and Mexican food at an outdoor reception nearby proved too much, and I left before questions from the audience commenced.

The profession itself is diverse, however. We were gratified to meet a substantial number of sensible anthropologists who were working on interesting and constructive projects. We heard stimulating papers on a very wide variety of topics—the failure of self-help projects developed by relief agencies working with refugees in the Balkans; the insights that the study of household refuse can provide for appreciating the potential differences between what people do and what they say they do; the cultural construction of environmental problems.

Nevertheless, one of the frustrating aspects of American academic life is a seeming lack of desire to engage in robust face-to-face debate. This is the downside of civility. Most conference sessions allowed hardly any time for discussion and even the most egregious drivel was politely applauded and allowed to pass unchallenged. One attendee—a sanctimonious environmentalist from Alaska—literally ran away from me when I vigorously challenged her statements on a particular matter. Commenting on this avoidance of direct confrontation to an American colleague who is familiar with the rough and tumble of Australian and British academic debate, I suggested that the difference might be due to the fear that in a society in which many people went armed, harsh words could have potentially lethal consequences. My attempt at an anthropological explanation was curtly dismissed with the statement that few people ever brought guns to conferences.

Dr Ron Brunton is Director of the Indigenous Issues Unit within the Institute of Public Affairs.

I P A

REVIEW

THE SAMUEL
GRIFFITH SOCIETY

CONFERENCE
ARM's Republic?
A Preamble?
A Bill of Rights?
The Senate?

Rydges Carlton Hotel,
Melbourne, 9–11 July,
1999

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Book Reviews

A Forward March from the Left?

Robert Clark reviews

Open Australia

by Lindsay Tanner

Pluto Press, 1999,
248 pages, \$24.95

Lindsay Tanner covers a lot of ground very quickly.

Technology, national identity, multiculturalism, loneliness, communities, globalization, the role of government, taxation, competition policy, education, the environment and the political process are all dealt with in this slim, readable volume.

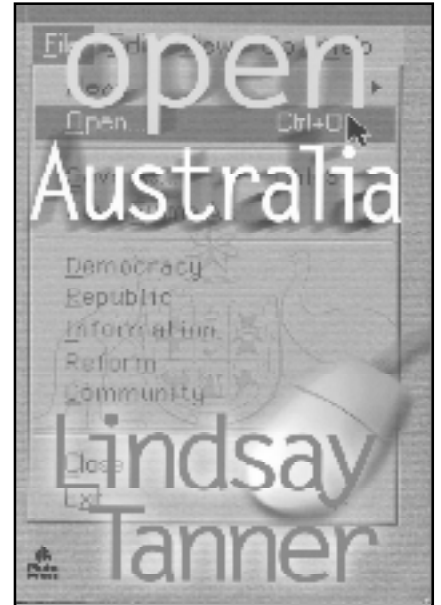
Tanner's short, confident sentences quickly plough through complex issues. Numerous endnotes cite sources to support facts or statements. Radical departures from traditional left-wing dogma are interspersed with the obligatory biffs for 'conservative' governments along the way.

Tanner's central thesis is that the 'avalanche of change' which Australians have experienced over the past 15 years is due not to the wicked economic rationalists, but to rapid technological change transforming the way in which economies and societies operate.

This change has many benefits, but in any event it is inevitable, so we ought to make the most of it. Globalization cannot be prevented without enormous costs to our living standards.

Tariff reductions, deregulation, privatization, downsizing, competition policy and enterprise bargaining have all been necessary consequences of this change, not its causes.

Australia is well placed to take advantage of the enormous opportunities which globalization and the information economy offer, thanks to our well-educated population, technological sophistication and creativity. We should accept and welcome the shift of work to new jobs in the service and information industries, and not try forlornly



to cling to the jobs of the past.

Tanner also argues that society today is still coming to grips with the legacy of the social revolution of the 1960s. Feminism, racial equality, sexual freedom and civil liberties produced many 'profoundly positive social changes', but also contributed to a surge in social problems such as loneliness, alienation and loss of community.

Changes both in social values and the way society is organized around work are reducing social ties and participation in social institutions. In turn, this more individualistic organization of society has led to interpersonal relationships being determined increasingly by choice rather than obligation. People are becoming valued for external characteristics such as appearance or wealth, rather than for their innate humanity.

Yet people need recognition and approval from their fellow human beings, which can only be achieved in a communal context. Those who are not chosen, or are dropped, often face social exclusion, resulting in family breakdown, drug abuse, suicide and violent behaviour.

To remedy this, our social policy must go beyond welfare to the building of institutions which can make sure that individuals are included in soci-

ety—a place to participate and a place to belong.

All of these changes will require the nature of government to change as well. As globalization reduces governments' control over society, governments must move from command to persuasion and negotiation. As well, with old class groupings disappearing, the ALP needs to become more community focused and give a more direct say to grass-roots members.

There is much in Lindsay Tanner's book to agree with, particularly when he is disposing of various left-wing myths.

Globalization and information technology *do* offer enormous benefits to humanity, and Australia should move to take full advantage of them through openness and deregulation. The privatization of government instrumentalities *has* been a result of new capital requirements, government budgetary needs, international competition for business customers and new technology breaking down boundaries between public and private provision. Rebuilding our tariff walls *is* no longer a viable option. Foreign investment in productive activity *should* be encouraged not resisted. Work-sharing to create jobs *is* of very limited value, and a mandatory reduction in working hours *would* have perverse effects.

Indeed, in terms of economic policy, one of the striking features of Tanner's book is that he does not propose any major departures from a policy of deregulation, flexibility and the greater use of the private sector in service provision. Proposed changes to economic policy are limited to restructuring corporate law to impose social obligations on companies, incorporation of labour rights clauses into international trade agreements, more government attention to and spending on education, and a closer integration of environmental implications into government decision-making.

There are, however, numerous subsidiary points on which one could disagree with Tanner.

The assertion that 'free trade in products can happily coexist with a regulated labour market, because labour is a lot more than just a commodity' (page 14) is a glaring non sequitur.

The claim that the criteria of universal use of the product, non-contestability of the market and externalities in production and consumption lead to the conclusion that 'gas, water, electricity and basic telecommunications

systems' should remain in public ownership (page 101) is also a non sequitur.

The Victorian energy industry reforms have demonstrated that contestability in large parts of the gas and electricity industries is possible, nor do such industries seem to have any particularly significant externalities. There is certainly near-universal use, but there is also near-universal use of many foodstuffs, without that being considered grounds for public ownership.

The claim that we are moving into a 'post-scarcity world' which poses a major challenge for conventional economic theory (page 75) misunderstands fact and theory. Scarcity and need are not absolutes. People have a hierarchy of needs/wants, and if the more basic are met, people move on to the next priority. Our economy will never be at risk of running out of de-

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mand for goods or services or running out of work to be done. Rather, there will be choices and debate about what our individual and community priorities should be in consumption of goods and services, in work, in family, recreational and social activity, in regulation and in redistributive/assistance measures.

Furthermore, Tanner is wrong in ascribing the rapid growth in international product, service and capital markets in recent years solely to the politically neutral factor of 'technological change', however much that may be a face-saver for those of formerly socialist views.

Certainly, technological change is permitting a massive growth in international service provision and information exchange of types that were previously impossible. But the driving force which has led to the opening up of the economies of Asia, Central and South America, Eastern Europe and

even Africa has been the reaction of governments and individuals to the manifest failure of the communist and socialist experiments.

These failures, and conversely the success of free markets in raising living standards around the world, is what has led many Third World governments to embrace free enterprise, and give up on former socialist, nationalist or other interventionist approaches. This would have occurred regardless of any post-Cold War technological change, albeit probably at a slower pace. The world in the eighteenth and nineteenth centuries went through a similar explosion of liberalization and growth relying on ships under sail, only later augmented by steam, railways and the telegraph.

Similarly, Tanner is wrong in ascribing the collapse of state socialism to 'globalisation and changes in the process of production' (page 95). One can certainly argue that it was the TV set, fax machine and other technologies of the '70s and '80s which drove home to those in the former communist bloc the comparative failure of their regimes, and thus precipitated, or at least accelerated, the communist collapse. The Soviet model, however, was just as much a failure in the 1930s as in the 1980s, if not more so.

Turning to social issues, the great strength of Tanner's analysis is that he recognizes that social problems have largely social rather than economic causes. He does not run the usual left-wing arguments that drugs, crime, homelessness, family breakdown, etc are due to the oppressive nature of the capitalist system, or that 'if only' we spent more on welfare payments or services, or reduced income inequality, these problems would be cured.

Tanner does, however, identify some economic factors as contributing to current social problems. The explosion in productivity 'has reduced the number of jobs in which men are clearly superior', and 'increased the number of jobs which are more desirable than full time domestic work', leading to 'growing confusion about the role of men' and a consequent increase in anti-social behaviour by young males (pages 76-77).

(It may be responded to Tanner's argument that technological change is merely changing the category of men who struggle to find a role—the lightweight nerd who would have struggled previously is now a software writer in great demand, whereas the hale and

hearty man who formerly would have been the village blacksmith now cannot find work. On the other hand, technological change and the reduced importance of physical work may lead to Tanner's conclusion more indirectly. Such changes, together with various social changes, may arguably increase both the ability and the willingness of women to manage without permanent male partners. This, together with a fall in relative mortality rates among males, could create the problem of a significant net increase in the number of males wanting but unable to find permanent partners or establish families. This could well be expected to produce the increased anti-social behaviour to which Tanner refers.)

Unfortunately, having described and analysed our social problems well, Tanner's proposed solutions are fairly limited. He wants governments and individuals to support community institutions such as neighbourhood houses, sporting clubs, libraries, public housing residents' associations, community health centres and legal centres. He also proposes extending childcare service provision, a 'renewed commitment' to public housing, a redesigned welfare benefit structure, and some notion of mutual obligation without being punitive.

Support for community institutions is a sound proposal as far as it goes (although the inclusion of legal centres is curious). For those who are willing to join in provided there is something to join in with, such institutions can be most valuable. Self-improvement clubs for retirees and welfare associations for elderly people of ethnic backgrounds are two clear examples that have flourished in recent years.

Government support for community organizations of itself, however, is not enough. There need to be people of community spirit available and willing to run them, and more importantly, people need to be willing to join in. Those who are too badly alienated from society won't do so. 'Youth drop-in centres' for young people hanging around shopping centres seldom seem to work. Nor, of course, are community organizations likely to play a major role in solving problems such as why so many families break up or why so many young people decide to take drugs.

Thus we need to go further than giving support to community organizations. We need to address the fundamental issue of our social mores—

people's individual personal behaviour towards others, how we bring up our children and the values we teach them, how well we know and help our neighbours, how much individuals participate in the life of their local community.

This is a difficult issue for any government—difficult because it goes to people's personal lives, and difficult because it is not just a matter of governments rolling out a policy or funding a new or expanded service. Indeed, one can argue that the undue looking to government to provide the answers is itself part of the problem, because it

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reflects a lack of individual and community willingness to take responsibility. Fundamental change won't take place unless individual people want it to happen and themselves make it happen.

There are, however, actions that governments can take. Some government-supported services can help change attitudes or prevent or remedy various problems, such as peer support programmes in schools, or child protection services. Parliaments can legislate, which can not only have some direct effect, but also may send a social message. The Child Support Agency not only collects money, its existence sends the message that parents are responsible for the financial support of their children. As well, Prime Ministers, Premiers and other Members of Parliament can provide leadership through agenda-setting and their contributions to public debate.

Open Australia does not spend much time on these matters. Apart from support for community institu-

tions, it pursues a materialistic path strangely at odds with its preceding analysis.

Rationalizing the welfare benefit structure to remove disincentives is a good thing, but doesn't help fundamental social problems. Providing more welfare support as services rather than cash is debatable. Locationally targeting community institutions in Sunshine rather than Brighton to reduce use by high-income earners, as Tanner proposes, could be seen cynically as an excuse for pork-barrelling. In any event, it would be unfair to low-income earners in generally prosperous areas, such as the large number of public housing tenants in the Brighton area.

Overall, how one judges Tanner's book depends on the criteria against which one assesses it. The acuteness of his observations and analysis, and his ability to marshal and deploy a wide range of facts to support his arguments, show intelligence and breadth of knowledge. The arguments are clear, frank and direct. If one judges the book by what it augurs for the future of Australian politics, it is highly encouraging that much of the old dogma of the socialist left is being challenged from within and hopefully swept away.

If one judges *Open Australia* by the new solutions or new directions it lays down, however, it is lacking and we will have to see if Tanner will redress this on some future occasion.

Nonetheless, if one has an interest in Australian political debate, *Open Australia* is well worth reading for its insight into the thinking of this rising figure of the Australian left.



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I P A

Eating Ideology

Stephen Dawson reviews

Eat the Rich

by P.J. O'Rourke

Picador, 1998, 246 pages, \$17.95

Patrick Jake O'Rourke is a people person. Time and again he sets out to slaughter the enemy. But then he gets to know them.

In *Parliament of Whores* O'Rourke put hard questions to US politicians and bureaucrats alike. He gradually discovered that they are human beings, competent ones, indeed, hard-working ones. Instead of satirizing them he admired them.

So with O'Rourke's latest collection of extended essays. In *Eat the Rich*, subtitled 'A Treatise on Economics', his pen remains as sharp—and as funny—on everything, except the people he actually met.

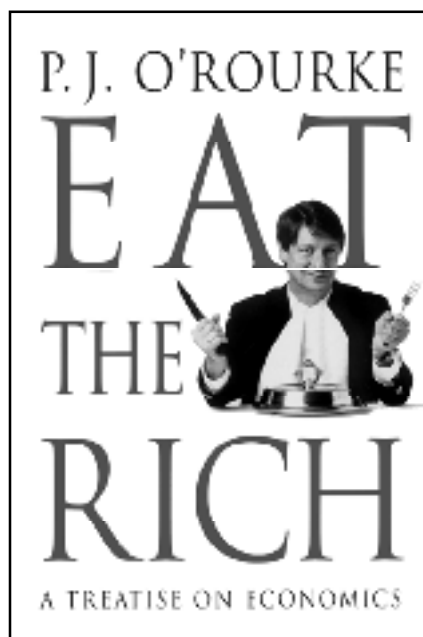
Thank goodness O'Rourke apparently doesn't know the Clintons personally or even those barbs would be blunted.

Still, P.J. O'Rourke has produced a tasty blend of factual material and notable turns of phrase of the kind that have ensured best-seller status for his previous seven books. He has also managed to avoid recycling material, a flaw marring a couple of the earlier ones.

O'Rourke builds his, er, economic analysis around his travels. With three digressions into 'theory', each of the chapters concerns a different place illustrating a different judgement. Thus Wall Street is 'Good Capitalism' while Albania is 'Bad Capitalism'. For Socialism, the 'Good' and the 'Bad' are Sweden and Cuba.

Then there is Russia, its confusing state reflected in the chapter title: 'How (or How Not) to Reform (Maybe) an Economy (if There Is One)'; Tanzania ('How to Make Nothing from Everything'); Hong Kong ('How to Make Everything from Nothing'); and Shanghai ('How to Have the Worst of Both Worlds').

The book is more than snappy titles. The most revealing chapters are the 'Good' ones. Wall Street frightens O'Rourke by its size and fury, by the apparent (and actual) irrationality of its movements. Yet he finds that the alternatives would be worse: if investment were run by the Government, it would 'buy shares in the Studebaker corporation' instead of Coca-Cola for sound so-



cial reasons, notwithstanding the former being out of business.

Good socialism—Sweden—works for three reasons. One is that the lazy have been culled from that land over the centuries by its climate. Another is that it wasn't really socialist until the 1960s anyway. At the start of that decade Swedish taxation amounted to 31 per cent of GDP. Worker benefits were generous, but all tied to employment. Thus the workers (and the professionals and everyone else) worked.

No longer. O'Rourke predicts a crash when foreigners decide to stop lending for the nation's ever-increasing public debt. Or perhaps they can tax their way out of it since, '[o]therwise a marvelously honest people, the Swedes have a blind spot about taking certain property that isn't theirs, as long as the loot is fairly divided.'

What makes the capitalism and socialism 'Good' in Wall Street and Sweden is the third reason for Sweden's continued civility: rule of law. What makes them bad in Albania (he supplies a marvellously lucid account of the growth and collapse of the financial pyramids in that country) and Cuba is its absence.

Tanzania (remember, 'Nothing from Everything') and Hong Kong ('Everything from Nothing') give a more pointed separation between socialism and capitalism through O'Rourke's explication of their history. Between its independence in 1961 and 1994, Tanzania received at least US\$20 billion in foreign aid, yet remains one of the poorest countries in the world, due in large part to President Nyerere's collectivization of agriculture. O'Rourke gives Nyerere his due: he is one

of the few national leaders ever to admit that he failed.

Hong Kong's success he attributes to one John Cowperthwaite, a British officer sent to Hong Kong in 1945 to take charge of its economy. Cowperthwaite is quoted by O'Rourke: 'I did very little. All I did was to try to prevent some of the things that might undo' the colony's growth. These included prohibiting the collection of economic statistics, for fear that they would be misused.

The economic digressions are just that—and are perhaps the funniest sections. Only one economic graph appears. Its axes are captioned 'Quality of Things That Can't Be Quantified' and 'Quantity of Things That Can't Be Qualified'. The third of his 'Ten Less-Basic Principles of Economics' is that 'You Can't Get Something for Nothing'. The explanation begins 'Everybody remembers this except politicians'. To illustrate the principle of comparative advantage, O'Rourke compares the productivity of John Grisham specializing in 'bashing the laptop keyboard' and Courtney Love devoting herself to 'caterwauling and plinking guitar strings', against them diversifying into each other's area of 'artistic' achievement.

One small disappointment with the Australian version of the book is its cover. In the acknowledgments O'Rourke thanks one Daniel Adel for creating '[t]he little rich guy running away from me'. This was notable enough to be mentioned in a January 1999 radio interview between Brian Lamb and O'Rourke. Unfortunately, said 'little rich guy' makes no appearance on the cover of the Australian edition.

Economic education in one easy-to-read book? No. But an amusing journey to the conclusion that capitalism is important to a people's well-being, and rule of law even more so.



Stephen Dawson is a story-writer and commentator on computers and Hi Fi matters who lives in Canberra.

I P A

REVIEW