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The IPA’s Immigration Debate

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The Future of Hong Kong

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The Economic Implications of the Take-over
Natural assets aside, Hong Kong’s economic success has depended upon its open markets and the security of property and contract under the rule of law. If these are seriously threatened, then the outlook is doubtful

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Renovating Civil Society
Between the State and its citizens lies a tier of intermediate institutions—mostly small-scale and voluntary in nature. At least that’s the theory. Practice suggests otherwise, and calls for an urgent re-examination

IPA Indicators
Mining investment, land claims and mining, tax rates on investment, Howard’s ‘battlers’, and executive salaries.

The ‘R’ Files
Reforms to Victoria’s electricity generation and distribution industries have put the pressure on the other States to open up their markets

The Pyrrhonist
It might seem like heresy, but someone has got to say it—most appeals to the notion of ‘sustainable development’ are either empty, oxymoronic or hypocritical

Free Enterprise.com
An introduction to the Internet—especially for the novice—given colour by Bruce Green

Myths About the Minimum Wage
Serious economic analysis suggests that there are other means for dealing with the problems of unemployment and low incomes

Hindmarsh Heresies • Declining Sperm Counts
Ron Brunton reviews Chris Kenny’s Women’s Business and wonders why telling the truth gets such a bad press; Roger Bate reviews the latest piece of environmental alarmism, Our Stolen Future, and concludes that it is scientifically ill-founded.
As the friends of the IPA will know, the previous Review was the last completed under the editorship of Ken Baker. This issue is the first under the new editorship—although it is in the nature of these things that the contents are not all newly-gathered.

This is also the first with our ‘new look’: leaner, more direct, and simpler in layout. Part of the reason for this is that we will over the next few years be more closely integrating our ‘hard copy’ publications with electronic forms of publishing.

The change in editorship and, more particularly, the change in layout have combined to delay the appearance of this number; and for this we apologise to our readers. We fully expect to be able to catch up with and resume our regular schedule over the rest of the year.

The magazine is a mixture of old and new. The regular columns still appear, and to these we have added a new one: Stephen Dawson’s Free_Enterprise.com, an introduction to the Internet and the World Wide Web. While there is still a good deal of both hype and bogus expertise attached to them, there is no doubt that rapid access to the global public policy debate is one of their real strengths. With an intelligent guide, we hope to make that access easier.

Readers will also notice that we are introducing a separate central section, which will contain the articles comprising our focus issues.

In this edition, we focus on two issues: we look at the likely fate of Hong Kong after its return to Chinese dominion later this year; and we discuss the realistic options available to Australia in the area of immigration policy.

The future of Hong Kong under Chinese rule is of obvious interest to Australians. We have a fairly narrow commercial interest in the continuing prosperity of the city; and that coincides very neatly with the diplomatic interest in avoiding offence to China. These interests mute whatever official expression our government might give to our natural feelings of deep concern over the plight of the citizens of a country who will very shortly have a bizarre and ramshackle tyranny replacing the essentially benign and minimalist rule of their former colonial masters. It is one of those situations where we instinctively feel that diplomatic niceties go contrary to both heart and mind.

But as our contributors make clear, Hong Kong at least has the advantage that the eyes of the world will be upon it. More than that, interested observers now know—with the benefit of observing the painful transition of Eastern Europe from communism to democracy—just which elements of Hong Kong’s imperfect democracy are the important ones, the ones worth defending.

One of Hong Kong’s strengths, of course, is that its wealth was largely the creation of a society of migrants who were able to unleash their entrepreneurial skills within a remarkably open and free economy. This makes a point not usually considered in the Australian immigration debate: our capacity to absorb new migrants—not least entrepreneurial entrants from Hong Kong, and other ethnic Chinese—is limited most by the limits we impose on the freedom and openness of our economy. That aside, what emerges most clearly from our immigration debate is the near-consensus that the other limits are less compelling than the usual content of the debate would have us believe.

In our next issue, we shall, among other topics, be looking at those limits from another, oblique perspective: from across the Tasman. Expanding upon the themes alluded to by Sir Roger Douglas in this issue, we will be continuing to examine the progress of New Zealand’s reforms and, by implication, the effects of our own failure to emulate them.

In other lead articles, John Hyde, Mike Nahan and Robert Skeffington look at the record of the first year of the Howard government from their different perspectives. And from any perspective, that record is not good, nor is there much in it to encourage the expectation of better things to come. Those few true believers who quietly cheered on the then Opposition when they supported the good reforms of the Hawke and Keating governments, must wonder what happened to the apostles of genuine labour market reform (to name only one important policy area), apostles like Reith and John Howard himself.

Again, in Opposition, the Liberals provided much-needed backing for the progressive tariff-reduction programme put in place by Labor. As our tribute to the original ‘Modest Member’, Bert Kelly, sadly reminds us, that adherence to principle now seems to be evaporating. Whatever the decision eventually made by the government on the car industry—and it might well be the ‘right’ decision—it will represent another opportunity lost to demonstrate leadership in reform. And serious reform is still needed if we are to remove the limits to growth.
Imagine a family which decides to get its financial affairs under control. All agree that each must start saving. To monitor performance, a record of their efforts is produced. Imagine the other family members’ surprise and anger when they discover that the household head has dipped into the children’s piggy banks and the spouse’s Christmas saving account to boost his own saving effort, while cutting back less than agreed on his own spending. The family has missed its joint saving target. Family harmony is shattered. Other family members ease up on their own efforts. Debt rises.

Australia is much like this family. The household head is the Commonwealth Government. Increased national saving is an agreed policy priority. The States and Territories, and private individuals and businesses, are the other family members. The Commonwealth Budget balance records the household head’s performance; the National Accounts show national and household saving.

At several levels, the Commonwealth Budget has overstated the real contribution to national saving and has scrambled the signals on saving.

For a while, proceeds from selling off public assets, and State debt redemption, were treated as reductions in the Budget deficit—as an improved Commonwealth saving effort. Thankfully, this piece of fiction—they are simply transfers of assets between family members—is no more. The present Government has put emphasis on the so-called ‘underlying’ Budget balance, which removes these transactions. This is more honest.

In the past, the Commonwealth concentrated its genuine ‘above the line’ expenditure saving effort on payments to the States and Territories rather than own outlays. Paring back the States’ housekeeping allowances made the Commonwealth Budget balance look better, but essentially at the States’ expense. They are now repaying the favour by loosening their purse strings as their own budget situations improve, thereby undermining the Commonwealth’s announced public saving programme. Australia is a family divided.

There’s more. The Commonwealth Budget—even in ‘underlying’ balance terms—is being fattened by raising taxpayers’ savings. Present and previous governments agreed on compulsory private saving to fund individuals’ retirement and reduce demands on the age pension. But increasingly since 1988, the Commonwealth Government has taxed these private savings and used the proceeds to make the Commonwealth Budget bottom line look better. This is like raiding the children’s piggy banks to finance the household head’s spending habits. It adds nothing to national saving. In some cases, the proposed super surcharge taxes super savings at marginal rates up to 115%!

The Commonwealth Government, moreover, relies increasingly heavily on income taxes, which fall on both private spending and saving. Again, the Commonwealth is dressing up its own saving effort partly by siphoning off private saving. Understandably, other household members are rebelling. Why should they increase their effort when the Commonwealth increasingly appropriates it into its own coffers? Income taxes—partly taxes on saving—are dividing the nation and undermining its total saving effort.

Below is a simple illustration of how taxation of private saving boosts the apparent saving performance of the Commonwealth Budget at the expense of private saving. Siphoning off private saving through taxation covers up the real Budget saving effort. If the ‘underlying’ Budget balance were measured on an expenditure tax basis, this problem would not arise, because expenditure taxes fall on spending only, not saving.

This suggests a useful addition to the Federal Government’s ‘Charter of Budget Honesty’. To expose the extent to which public saving relies on cannibalising private saving, an expenditure tax-based estimate of the ‘underlying’ Budget balance should be a routine feature of Budget reporting. This estimate would be larger than the present ‘underlying’ Budget balance, but national saving would remain unchanged, with the difference being credited to private saving.

Presumably stop here? If an expenditure tax-based Budget bottom line is better, why not move to greater reliance on expenditure taxation, thereby reducing the gap between the two measures of the Budget balance? This is not a radical proposal. The largest single investment for most Australians’ savings remains the family home, now expenditure-taxed on an up-front basis. The home is purchased out of after-tax savings but capital gains from its subsequent sale are tax-free. Superannuation contributions (before 1988) were also effectively expenditure-taxed (but at the end of the accumulation process: contributions were tax-deductible and drawdowns were taxed).

Expenditure-taxing superannuation contributions at progressive rates as they are accessed would make the tax treatment of super much simpler and much more equitable. Introduction of similar saving vehicles for new non-superannuation saving would be particularly beneficial to low-income taxpayers who cannot afford to negatively gear (dissave) into risky investments. Australia’s savings would be used more efficiently, too.

On balance, these improved incentives for private saving would raise national saving, even if, initially, this required a more honest exposure of the full extent of public dissaving.

And, finally, the Australian family would be more united in terms of its national saving effort. Greater budget honesty would ensure that both public and private sectors pulled their weight, rather than undermining each other’s efforts.

The article is based on research commissioned by the Life Investment and Superannuation Association of Australia Incorporated and the Investment Funds Association of Australia Limited.
What does it Mean to be Indigenous—and does it Matter?

KENNETH MADDOCK

Special 'rights' for specific indigenous groups require difficult conceptual distinctions between indigenous and other peoples. As Ken Maddock shows, the application of the distinctions is bound to be inconsistent and provocative.

The indigenous movement often presents itself as constituting a 'Fourth World'. The name was popularised in 1974 by George Manuel, then president of the Canadian National Indian Brotherhood, in his book The Fourth World. Though mainly about Canadian Indians, it deals also with peoples whom Manuel thought similar, such as Maoris and Australian Aborigines.

Manuel defined the Fourth World by two features: a 'common understanding of the universe' held by many tribes before Europeans arrived; and their subsequent shared 'experience of colonialism'. Unlike the Third World, intent on adapting lifestyle to Western technology, the 'Aboriginal World' clings to romantic otherness. It rejects Western political techniques; [and] it is unable to comprehend Western technology unless it can be used to extend and enhance traditional life forms.

Manuel's activities helped lead to the formation of a World Council on Indigenous Peoples in 1975, which quickly obtained NGO status with the United Nations. Later, the UN established a Working Group on Indigenous Populations, which has met annually since 1982. One of the indigenous movement's aims is to have the world body adopt a Declaration on the Rights of Indigenous Peoples.

In 1983, the Working Group attempted a more elaborate definition of 'indigenous' people than the one Manuel had provided:

Indigenous populations, communities, peoples and nations are those which, having a historical continuity with pre-colonial and pre-colonial societies that developed on their territories, consider themselves distinct from other sections of the societies now prevailing on those territories or parts of them. They form at present non-dominant sectors of society and are determined to preserve, further develop and transmit to future generations their ancestral territories, and their ethnic identity as the basis of their continued existence as peoples, in accordance with their own cultural patterns, social institutions and legal systems.

How well does this definition do the job of separating indigenous wheat from exotic chaff? If it enables indigenous societies to be clearly distinguished from all other societies, then there might be a basis for advocating a special class of indigenous rights over and above rights available to people generally. (Of course, the question of whether persons who satisfy the definition ought to have special rights would remain.) Unfortunately the criteria used by the Working Group are inadequate.

For example, population movements, often assisted by force, have occurred throughout history. If continuity with pre-colonial or pre-invasion times is important, which invasion or colonial settlement is to be chosen? Manuel defined the Fourth World as a product of Western expansion, but there seems little logic in treating the period before Maori contact as less significant than the period before British colonisation. If this is so, even in a country like New Zealand with a short history as a nation, how much more must it be the case nearly everywhere else? Continuity requires a baseline, but competing groups can be expected to choose the one that best suits their contemporary interests.

The concept of ancestral territory faces a similar difficulty. The members of every

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society are located somewhere, and they are descended from people who also lived somewhere. Human groups wax and wane, split and merge, so there is almost infinite scope for confusion and uncertainty about ancestral territory, even where the situation has not been complicated by invaders or colonists. Different generations of ancestors may have been associated with different territories. In the bitterly-contested Finnis River land claim in the Northern Territory, for example, it transpired that the ancestors of one claimant group had moved into country vacated by the ancestors of another group, who had migrated to European settlements. In finding that the later occupants better satisfied the requirements of traditional ownership than the earlier, the Land Commissioner rejected the dogma that an Aboriginal group cannot ever lose its territory. Similar situations exist in other parts of Australia and will add to the difficulty of determining who holds native title. Owing to the shallowness of historical records and oral traditions, however, Australia is simplicity itself compared to some parts of the world.

The latest Draft Declaration on the Rights of Indigenous Peoples sets out an ambit list of claims which, if accepted, could have radical consequences for the countries affected

The Working Group also stressed that indigenous peoples have ethnic identities, which apparently they determine for themselves. Their sense of identity separates them from the rest of the population, while making them feel as one with their pre-colonial or pre-invasion forebears. Recent unpleasantness over entitlement to use the name 'Macedonia' shows what potent emotional forces 'ethnic identity' can release. In any case, how seriously should we take a status that people impute to themselves? Can it ever lend legitimacy to demands made on others, or is it analogous to a deluded man's belief that he is Napoleon? How many people today give credence to the claims of Aryan identity that used to be made so vociferously by German Nazis?

Clearly there are two problems with the criteria of continuity, territory and identity stressed by the Working Group. On the one hand, the supposed characteristics of indigenous peoples are also held by others—in the United Kingdom, for example—whom the Working Group is unlikely to accept as indigenous. On the other hand, even within a supposedly indigenous population—such as the Maori—there may exist differences of the kind which the Working Group wants to use to divide mankind into indigenous and non-indigenous.

The Working Group's definition includes one other element. Indigenous populations are 'at present non-dominant sectors of society'. Unfortunately, this will not do the trick of turning bad definition into good. Should a population become dominant, as did the ethnic Fijians through a military coup and a rigged constitution, or purely democratically through an increase in their numbers, would they cease to be indigenous? Malaysia is a good example of a country in which a numerically preponderant population, the Malays, has arrogated indigenous status to itself in order to dominate groups which have as good or better claims to it. The families of some 'non-indigenous' Chinese, for instance, have lived 600 years in Malaysia, while some 'indigenous' Malays arrived from Minangkabau in present-day Indonesia only 150 years ago.

If the Working Group's approach to definition is unhelpful it may be worth looking again at the word 'indigenous'. It can obviously mean the original inhabitants of the land, but it can also mean the people born in a particular region. The latter, more extended, meaning allows it to cover peoples whom the Working Group wants to keep apart. Once again, New Zealand offers an example.

In his 1989 book Maori, Pakeha and Democracy, the political scientist Richard Mulgan defined the culture of the Pakeha (primarily the descendants of British settlers) 'as the branch of European culture which is native or indigenous to New Zealand.' He pointed out that to restrict indigenousness to the descendants of a pre-colonial population 'freezes time at the point of original settlement' and denies that the descendants of colonial settlers can ever be at home in the country their ancestors colonised. 'In this sense, indigenousness connotes a process, by which people put down roots and come to feel at home, even though they may still feel an attachment to some other place, such as 'Home' for the New Zealander of British descent or 'Hawaiki' for his Maori counterpart.

One would not expect the Working Group to be happy with Mulgan's approach, but something like it can be found in Roger Moody's introduction to his comprehensive anthology The Indigenous Voice: Visions and Realities, published (jointly) by the International Working Group for Indigenous Affairs. Suggesting that indigenousness might be regarded as beginning 'where historical origins (firstcomings, first emergences, dreamtime) and individual perceptions (being of the people) coalesce', Moody then admits that 'this cannot be the whole story'. Among the contemporary communities which can rightly be called 'aboriginal', many 'do not trace a primogeniture ... on the lands they now occupy'. So why are they demanding 'special priorities, rights and recognition'? Perplexingly, it is 'because they are in their present place (or demanding a present place from which they have been uprooted) at this point in time.'

To claim indigenous status can thus be a politico-legal move. But such a strategy will succeed only if the persons at whom it is aimed accept that assertions of indigenousness are factually correct and morally significant. They may be unimpressed if they cannot see the basis of the distinction between communities seeking 'special priorities, rights and recognition' and other communities in the same country. It is likely that Europeans at least will be more likely to accept demands made by or on behalf of peoples who can be held out to be aboriginal (ab origine, 'from the beginning')—perhaps because of the legacy of Romanticism. This disposition gives an advantage to Amerindians, Aborigines and Maori, for they are generally thought to be descended from the people...
Howard's Way

JOHN HYDE

Just over a year has passed since John Howard and the Coalition swept into power. John Hyde assesses the first year and whether 'Honest John' has lived up to expectations.

Howard has stated that he wants to be a reforming Prime Minister. That can mean only that he intends to make Australia a better place structurally. But, not even a year into his first term, he finds himself criticised for weakness, tardiness and being side-tracked from the main issues. Although his critics rarely make due allowance for democratic processes and the need to carry public opinion, they are not just carping. Strategies to make the most important reforms possible are not evident in, for instance, the first term report he gave himself. It compares unfavourably with his 'Headland' speeches delivered before the election, and the 'agenda for next year' is not, as he claimed, 'clear'. The section in the report card dealing with export performance was actually mercantilist in tenor.

Gun laws and changing from constitutional monarchy to republic are, as Rupert Murdoch asserted, side-tracks that will not much affect the lives of our children. On the other hand, the race debate and tension that were evident long before Hanson, and for rebuilding the institutional monarchy to republic are, as many would argue, really the need to carry public opinion, they are not just carping. Strategies to make the most important reforms possible are not evident in, for instance, the first term report he gave himself. It compares unfavourably with his 'Headland' speeches delivered before the election, and the 'agenda for next year' is not, as he claimed, 'clear'. The section in the report card dealing with export performance was actually mercantilist in tenor.

The unemployed deserved better. Not, in the long run, do I believe it is politically expedient. The concessions may deliver 'peace in our time' or—more likely—they may do for Reith's political career what sacrifice of the Sudetenland did for Neville Chamberlain's. In which case, we can be sure that Costello will be more than willing to play the role of Churchill.

Kenneth Maddock is emeritus professor of anthropology at Macquarie University and has written several books on anthropological and legal topics.
To qualify, however, he will have to make a good fist of tackling the savings problem—and his new tax on superannuation was not a good beginning. Waterfront reform gives Reith his second chance and, again, New Zealand’s achievements offer him a yardstick.

Importantly, too, just by being civil, Howard has achieved a much more relaxed parliament and society. Beazley also deserves credit here.

Unlike Fraser in his first two terms, Howard does not have the numbers in the Senate. Unlike Hawke, he does not have an Opposition that will support economic reform. But, unlike Keating, he does have the possibility of wooing two independent senators to give him the necessary Senate numbers. His popularity, so far, with the public and other MPs is also a huge asset; he should use it to convince them of the rightness of the reforms his knowledge of public affairs advises him are necessary. He is thus in a position to lead. But to be a winner he needs to take the ideas and authority of reports such as that of the Commission of Audit, the Productivity Commission’s report on cars and health care and the coming Wallis report and run with them. This he has signal’s failed to do.

Howard may have a blind spot on Commonwealth-State finances but he does not need to be educated from scratch. He probably already knows that community rating is inconsistent with any sensible way to run an insurance scheme, but making himself the arbiter of premium increases was inconsistent with any policy approach. He once knew that much more than he has so far achieved is required to reform the labour market. He once knew that Australia needed a broad-based consumption tax akin to Keating’s Option C.

The essence of political leadership is explaining and inspiring. It is about developing strategies to make good policies into good politics. It is about using prime ministerial authority to outface vested interests in trade unions, medicine and protected industries, to take just three particularly egregious examples. Agree or disagree with Kennett, he has shown that people can be inspired to accept tough decisions—in short, that political leadership is possible.

It is easy to find examples of when even strong political leaders have found leadership impossible or, as is more often the case, not worth the authority that would be squandered on an issue that is not critical. They, nevertheless, do not react like improperly-propositioned virgins when presented with politically unpalatable but correct advice. If allowed to mature, the toughest issues can have their day and, if they can’t be supported, they can at least be dealt with in terms that do not foreclose options. Under exceptionally difficult circumstances, Howard showed that this was so during the height of the race debate, and he should not allow Ministers, such as Moore and Wooldridge, who are too close to relevant vested interests for the good of the country, to distance the government from sound advice.

A steady flow of informed public advice is essential. Even the Democrats and Greens may be persuaded by some of it. There is, moreover, too much crossing-over of interests for the minor parties to harvest the votes of vested interests precisely. One not uncommon voter may want cheap CDs and protected rainforests, another protected cars and protected CDs, while a third wants logged rainforests and cheap cars. No three policies can appeal to any of them, and minor parties’ problems are more complex and difficult than the example. Even they must therefore convince at least some voters that they are more than just spoilers and servants of interests.

Behind-closed-doors negotiations would seem in the longer run to be bad tactics. The Greens and Democrats should be compelled to state by what principles they oppose the government—they cannot cite the vested interests. The ensuing debate will educate the public, force them to face their own inconsistencies and avoid conferring undeserved status on them. Meanwhile, important Bills that may trigger a double dissolution should be presented twice to the Senate.

One day Labor will return to power. The only way that Howard can be sure that he will not again suffer the embarrassment of watching it make the liberalising reforms the Coalition was afraid to make, is to lead now. Of course leadership entails political risk, but as another Prime Minister observed, ‘Life was not meant to be easy’.

John Hyde entered Federal Parliament as the Liberal MHR for Moore in 1974, and held the seat until 1983. He then became Executive Director of the Australian Institute of Public Affairs and was Executive Director of the IPA from 1991 to 1995.

IPA

MARCH 1997
New Zealand's Reforms: The Next Stage

MICHAEL JAMES INTERVIEWS SIR ROGER DOUGLAS

MJ It's about a month since New Zealand's general election of 12 October, and no new government has been formed. Is it too soon to draw any conclusions about the Mixed Member Proportional (MMP) voting system used at that election?

RD Probably. The only real conclusion that one can draw so far is that the next government, whoever forms it, is going to spend more money. The players are keeping very quiet about what is being discussed but there are indications, and certainly some rumours, including some that I believe are well-founded, that even the National Party is prepared to spend up big in some areas in order to remain in government.

MJ Is it possible that the present Bolger caretaker government could become a minority government by default?

RD That has always been a possibility, but I think only a marginal one. In many ways it's logical for Winston Peters, the leader of New Zealand First who holds the balance of power in the Parliament, to allow a minority government to continue and to ensure that it consults with him on all major issues. That would put him in a very strong position. But his preference quite clearly is to become a member of the next government.

MJ Is it likely that New Zealanders will want to change the MMP electoral system when it comes up for review in a few years' time?

RD I think it's very doubtful that they would change it. A select committee of parliamentarians will review it and hear evidence. But a large number of parliamentarians have been elected under MMP who simply would not be elected under any other system. It's highly unlikely that they will recommend a change of system.

MJ You are referring to the list MPs who are appointed by their parties rather than to the constituency MPs?

RD Absolutely, and also to some MPs from the smaller political parties. A referendum could be called on the issue under New Zealand's system of citizen-initiated referenda, which could recommend a return to the previous first-past-the-post voting system or even something like Australia's preferential system. But the people will want to see how the new system works before they vote it out.

MJ The big issue raised by the election is the fate of the economic reforms implemented in New Zealand over the last dozen years or so. Are you confident that the essentials of the reform programme will survive under the next government?

RD I'm confident that the programme will in large part remain intact. But, as I said earlier, the next government, whoever forms it, is going to increase public spending. The enormous fiscal surplus we have at present is likely to disappear.

MJ How would that affect the inflation target range of 0-2 per cent a year pursued by the Reserve Bank?

RD It's certainly not going to help it. And it puts pressure on the Reserve Bank to keep up interest rates and potentially the exchange rate as well. Don Brash, the Governor of the Reserve Bank, has warned against big expenditure increases by the incoming government; but unfortunately I think it's likely to happen. The climate of opinion is pushing government to spend more, particularly in the social policy areas.

MJ You imply that New Zealand's Fiscal Responsibility Act would not be a very effective constraint on public spending.

RD The Act requires the government to indicate what its fiscal policy is, but it doesn't actually prevent it from increasing spending.

MJ Is the Employment Contracts Act under threat?

RD We won't know until we see what changes are proposed. But you have to remember that the left got a hiding at the election. The Alliance and the Labour Party, which were calling for major changes in this area, each lost between 7 and 8 per cent of their electoral support.

But New Zealand First wasn't calling for change. I think the labour market legislation is likely to survive, perhaps with minor amendments.

MJ Some years ago you said that reforming governments tend to lose support if they give up on reform. Do you think the Bolger Government might have been re-elected with a majority had it been more reformist since 1993?

RD I think they really stopped being a reformist government at the end of 1991, and in my view that certainly added to the perception that this was a government that had lost its way. It was a do-nothing government that enabled the other parties to come forward and attract attention with their proposals for increased public spending. Had the Bolger Government actually tackled some of the remaining problems, particularly in the social policy area, it may well have been returned with more seats than it has at the present time.

MJ Would you say that experience around the world supports your belief that reforming governments succeed?

RD I think it does, in many ways. In Victoria, the Kennett Government is doing quite well. One could argue about the details of what it has done, but it has tackled the problems with a lot more vigour than any other of the Australian governments, including the federal one. In Canada, the only government that is really starting to tackle its problems is the provincial government of Alberta, whose Premier Klein is probably the most popular political leader in the country. In the end, the voters will support someone who has the guts to make the necessary changes.

MJ What are the main outstanding items on the reform agenda in New Zealand?

RD Quite clearly, the social policy areas like health, education, pensions, accident compensation, and the various welfare benefits. These areas contain a great deal of protection and monopoly power, but they remain virtually untouched by the reform programme.
MJ You are a strong advocate of compulsory superannuation. How would you make a case for that in a free society?

RD The point is that we will have a big free-loading problem if we don't go for compulsory superannuation. I'm suggesting that people be compelled to save up to an amount which will give them a pension equivalent to what the government gives them now. There should be no compulsion to save beyond that point. Without compulsion, some people don't save enough and then receive benefits from the taxpayer, even though they've had just as much chance to save as everyone else. There's no fairness in that. Without compulsory saving, compulsory taxation has to do the job.

MJ In your new book Completing the Circle, you say that an underclass of unemployed and welfare-dependent people is emerging in NZ...

RD I'd say that that is true throughout the developed world.

MJ ... and you also say that economic growth is unlikely to help them. Why so?

RD In New Zealand, the number of jobs has increased since 1981 by well over 200,000. But some people are ill-equipped and often unwilling to take on the jobs that have been created. They regard living on welfare benefits as their chosen lifestyle.

MJ In your book you suggest establishing a system of mentors to control the welfare budgets of dependent families; those families that refuse to be managed by mentors would have to accept benefits in kind rather than cash. How far do you think public policy can affect the problem? Does it require a moral change?

RD I've always said that this is not a real solution. But it's better than what we've got. We have to be concerned about the growth of dysfunctional families, which are responsible for 80 per cent of all crime. A child born into a dysfunctional family is 100 times more likely to become a serious offender than a child born into the average New Zealand family. We have just got to stop providing support payments for teenagers to become mothers and then providing them with housing. Without those incentives, 80–90 per cent of the problem would simply disappear. In addition, we need to change the regulations governing adoption. But that is a long-term answer.

The only way to help the tens of thousands of families who fall into this category now is on a one-to-one basis. I don't believe the government is going to be particularly efficient at it, but it can make the money available to private-sector groups, including the churches, who would be prepared to take on this responsibility. At least we would have a way of knowing whether the system was working. If a mentor were looking after six families, and they were all off welfare dependency after three years, we would know that the mentor was a suitable person to undertake such work. If the six families were all still on welfare, there would be a problem.

MJ In the United States there is a consensus that welfare policy has gone wrong and needs reform. Is there a similar consensus in New Zealand?

RD Many New Zealanders still look to the state as their saviour in health, education and welfare. There is a big constituency of people who understand that the system is rotten and has to be changed. But a huge group of people feel vulnerable: people in retirement, or who have reached middle age but haven't saved enough. These people are fighting to maintain the welfarist status quo. On this topic, New Zealanders are divided not by philosophy but by age.

The increase in social welfare spending that we are likely to see over the next three years is not going to help. We will get a return of only ten or 15 cents in the dollar. Health care will get marginally better, and perhaps education will too, but at huge cost. But social welfare will deteriorate as more and more people are encouraged into welfare dependency. Crime and family breakdown will get worse.

MJ What is your opinion of Australia's Howard Government? Do you have any confidence that it will achieve the breakthrough on economic reform that New Zealand has achieved?

RD My observations so far suggest that pace of any reform is going to be slow. It has not yet been equivalent to what it was in the first year or two under the Hawke Government. Unfortunately, it looks as if the Liberal Party has ruled out the possibility of doing certain things.

MJ A much-debated area of reform in Australia is taxation. New Zealand has had a goods and services tax (GST) for ten years. In the light of that experience, do you think a GST is a good idea?

RD Absolutely. It's proved to be a worthwhile tax. It certainly enabled us to reduce personal taxes. It probably made a major contribution to getting the fiscal situation in better shape. People can't really avoid paying it. New Zealand has an enormous fiscal surplus at the moment. However, I believe we shouldn't reduce the rate of GST. But we should further reduce personal tax.

MJ Is there a danger the GST can make it too easy for governments to collect revenue?

RD That argument has a degree of merit. But it's a pretty negative argument in that it assumes that politicians can't be trusted: they will somehow spend all the money a GST brings in. There is some truth in that. But it's also true that a GST can contribute enormously to creating a well-balanced tax system. A GST would improve Australia's economic performance by making it possible to reduce personal income tax, thus enhancing economic incentives.

MJ Would you recommend stronger fiscal responsibility legislation in Australia to contain public spending?

RD I would do that as well. And following New Zealand's example with accrual accounting and appointing CEOs to run government departments would also help.

MJ A final question. Do you intend ever to retire from public life?

RD I've almost retired already. I will certainly remain President of ACT New Zealand for some time to come. I'm not going to do as many speeches or things of that nature, but I'll probably egg a few people on from the sidelines.

MJ Thank you very much for talking with IPA Review.

Sir Roger Douglas (pictured above) was Minister for Finance in the Lange Government and architect of many of its major reforms. He is now Party President of ACT New Zealand.

Michael James is the Editor of Agenda, a quarterly journal of policy analysis and reform, published by the Centre for Applied Economics at the ANU.

IPA
It is far from easy to write an appreciation of a man like Bert Kelly. On the one hand, his subversive wryness persists, hovering like the Cheshire cat, forbidding all the easy pomposity and flowery eulogy. And on the other hand, it is distinctly difficult simply to write about his place in history, which now seems to be again uncertain.

Kelly worried about history—not about his place in the history books, but about whether or not his crusade was in the end successful, about whether he had been a force for historical change. He often quoted Arthur Hugh Clough:

Say not the struggle naught availeth,
The labour and the wounds are vain,
The enemy faints not, nor faileth,
And as things have been, things remain ...

As far as history is concerned, it is a routine irony that he died as a new Liberal Government was wrestling with yet another car plan. Equally ironic was the speech, given on the same day as his funeral, by Senator Robert Hill, a senior minister from Kelly’s home State, in which he promised his Adelaide business audience that the decision on protection for the car industry would be made on ‘commonsense’ grounds and without reference to what he sneeringly called ‘ideology’.

Here is a code that Kelly knew well: ‘ideology’ means a simple bit of barely refutable economics, and ‘commonsense’ means a supine retreat in the face of any lobby group which uses cheap, emotive and inaccurate arguments about ‘saving jobs’. The language has, of course, matured since Kelly’s day: to describe someone as ‘economically rational’ is now to commit pretty serious verbal abuse. The rules of the game—the old game now being played all over again by the government and the car industry—haven’t much changed. As he wrote:

Any MP representing an area which contains [a protected-industry] factory has a very easy task in mobilising a rush of sympathy for the affected factory. All he has to do is to arrange to get the local TV station down at the closed factory gates and he is regarded as a local hero. And if he is really cunning he will have a wife of one of the displaced workers there, with her apron on and a couple of bare-footed kids in hand. But you can imagine how difficult it would be to show on the screen the benefits that follow a low protection policy, with more people finding employment in a more efficient economy.

Does this mean that nothing, then, has changed at all?—that it was all a sad waste of time?

Without hesitation the answer comes—No.

When Bert Kelly started his crusade against tariffs in the ‘60s, with the support of only a handful of economists and bureaucrats, the tenets of old-fashioned political economy were more or less a dead letter. It was possible for advocates of protection to use all sorts of justifications for their arguments. The politics of the day—the dominance of the Country Party in trade policy, especially—spurred with do-it-yourself economics to produce a comfortable consensus: a ‘sensible’ tariff policy was essential to protect the economy and employment.

After Kelly, all that changed. All that comfortable rhetoric was exposed as a fraud, and those who now push it in the public debate still know that it is a fraud.

Perhaps the biography will explain how Kelly, with not much more than a standard secondary education, and a completely traditional farming background, could have done what he did. It is so often remarked in Australia that our heroes and prophets tend still to come from the bush. There’s usually nothing particularly mystical about this. Farmers do, as Kelly often remarked, have a lot of time to think; and they are acutely close to their livelihood. To quote one of Kelly’s favourite bits of Kipling—

The toad beneath the harrow knows
Exactly where each tooth-point goes;
The butterfly upon the road
Preaches contentment to the toad.
That goes only part of the way toward explaining his achievement.

It does not explain how it was that he wrote so well, wrote about essentially technical matters in such a clear manner. Rereading his columns, one is continually struck by the absence of the jargon; how often he depended on the apt metaphor. Kelly understood precisely enough economics to explain his subject without recourse to the language of economics. It was, indeed, the language of old-fashioned political economy: in just such a way might our intelligent forebears have explained the repeal of the Corn Laws—absolutely intelligible to virtually any reader.

Nor does it sufficiently explain the underlying strength of his writing: the knowledge that, although economics was a useful accomplice, what was at stake was not economic theory, but the morality of a government's economic actions. In a very real sense, the Australian culture of protection marked a return to an eighteenth-century style of government by grace and favour, so vigorously rejected by good nineteenth-century liberals.

All this was cast not in a stern nineteenth-century mode, but in a style which Ray Evans aptly compares with Steele Rudd and C. J. Dennis; always using his cast of characters—pragmatic and pushy Mavis, blunt no-nonsense Fred, and slightly superior Eccles. Kelly's wit and humour—often directed at himself—saved him from being a boring crusader, perhaps enabled the success of the crusade. Everyone will have their favourite passages. Some will always remember his line on a former Prime Minister: 'Malcolm Fraser is not notable for his sense of humour; if you see him smile you know that it is either wind or he has been working on a joke for a week'. Or more subtly: 'the Jim Killen I used to know was no one's lap dog. It is true that he would rather parody economics than think about them but that is different from obeying his master's voice'. Of course, and not least, the wry wit made him a delightful companion.

It remains only to say that we must all be grateful for his life and his work—it was, above all, a fully justified life. The Clough poem continues:

For while the tired waves, vainly breaking,
Seem here no painful inch to gain,
Far back through creeks and inlets making
Comes silent, flooding in, the main.

The Workplace Relations Act—plus ça change...

In an IPA Backgrounder published last year, Robert Skeffington put forward some criteria for measuring the worth of the Government's IR legislation. Here he assesses the Act as it eventually passed through the Senate.

The Government's new Workplace Relations Act is deft politics, but it may make little difference to the day-to-day industrial relations of Australian workplaces.

The Government's starting-point was to base its reforms on the need for higher wages and improved productivity—an exemplary objective and a significant paradigm shift for Australian governments. To get his changes through the Senate, however, Industrial Relations Minister Peter Reith had to water down what were already very modest proposals for reform. The result is that many employees and employers won't be affected by the legislation.

The Act appears to be based upon the deluded belief that Australian industrial relations are better than they are—while the reality is that many of Australia's key export industries are bedevilled by poor workplace productivity.

If you actually set out to try to sabotage the Australian economy by imposing unproductive workplace arrangements on our most significant industries, you couldn't do much better than the present situation. Industries such as coal, meat-processing and the waterfront immediately come to mind as sectors that are critically important for the Australian economy, yet their industrial relations are often, justifiably, deemed to be basket cases.

Australia's industrial relations system is still one of the most highly regulated in the world, despite years of urging that the system be changed.

The World Competitiveness Yearbook 1996 (IMD) ranks Australia an undistinguished 30th out of 46 countries in terms of industrial relations performance, defined as the productive relationship between employers and employees. It is interesting to note that countries such as New Zealand and Chile, which have recently embraced fundamental market-oriented reforms, were ranked 8th and 11th respectively.

If our firms are to be internationally competitive, their productivity performance must improve, and in order to unlock this productivity, substantial workplace reform is needed.

Although the legislative framework has now been changed, we cannot become complacent, and assume that the whole system has been fixed. Obvious shortcomings of the new Act include the facts that:

• The Industrial Relations Commission still retains a significant role, the tribunal being vested with responsibility for the vitally important award simplification process;
• Trade unions are still accorded special privileges, including the monopoly coverage of award employees;
• Although the Government has attempted to improve the previous Labor Government's unworkable unfair dismissal laws, it has fallen short of scrapping them;
• Due to the reliance on the corporations power of the Constitution, provisions in the legislation such as individual contracts are not extended to the unincorporated sec-

IPA
The Act appears to be based upon the deluded belief that Australian industrial relations are better than they are—while the reality is that many of Australia’s key export industries are bedevilled by poor workplace productivity.

finger on the phenomenon that many business people are now experiencing: that is, although sales volumes may be improving, prices are not increasing as they had in the past.

Many firms are now facing this reality, and if they do not improve their management of costs, it will eat straight into their profits. Brokerage house County NatWest estimates that the wages push in the last 18 months has sliced approximately 1 percentage point from the corporate profit share.

In order to deal with this, firms will need to reclaim the initiative in industrial relations. This will entail rejecting industry-wide wage agreements presented to them by trade unions, but also appealing directly to the hearts and minds of the workforce to achieve substantial improvements in productivity within their particular enterprise.

This process can start by firms genuinely using the increased choices in the Workplace Relations Act. This includes using individual contracts, establishing enterprise unions, and limiting dispute by holding unions responsible for their actions.

But some employers will use the legislation as an excuse for doing nothing, claiming that it ties their hands. It is important that these companies are not let off the hook. Industries such as the waterfront will only improve if the employers start using the law as a stepping stone and not a straitjacket. This will require Australian management significantly to lift its game.

In tandem with this, we also have to keep pressure on the Government and Parliament for further legislative reform. But in the meantime, individual workers and employers will need to take greater responsibility for the performance of their workplaces. It goes without saying that the Industrial Relations Commission will need to improve, given that it has proven itself incapable of implementing reforms in the past.

What then is the industrial relations reform message to employees and employers?—just do it.

Robert Skeffington is an Assistant Director at the National Farmers’ Federation.
On 12 October last year, Aborigines and Torres Strait Islanders voted to elect 375 regional councillors for the Aboriginal and Torres Strait Islander Commission (ATSIC), the major policy-making and administrative organisation for indigenous Australians. This was the third election since the body was established by the Hawke Government in 1990.

The Electoral Commission, ATSIC, and other indigenous organisations put a substantial effort into encouraging Aborigines to participate in the non-compulsory poll. Large advertisements appeared in major newspapers on voting day. A number of prominent Aborigines urged a high turnout, arguing that it would send a message to the Howard Government that indigenous Australians were angry with reforms and financial cutbacks to ATSIC.

So how did Aborigines and Torres Strait Islanders respond to their leaders’ call?

To hear ATSIC tell it, the message was unequivocal, which shows how easy it is to put a spin on statistics. In its October issue, the ATSIC Reporter, the staff magazine for the Commission, headlined the story on the polling with ‘96 Regional Council elections see increased voter turnout’. The story noted that there had been an increase of 8.7 per cent over the 1993 election turnout.

The media generally accepted this line. The Melbourne Age, for instance, quoted the State manager of ATSIC as responding to criticisms with comments that ‘there has been a steady increase in voter turnout since ATSIC’s inception in 1990, allowing the organisation to become increasingly representative of indigenous people’.

In fact, while the number of voters has indeed gone up, that growth is at a substantially lower rate than the corresponding growth in the number of Aborigines and Torres Strait Islanders over the age of 18 years. So ATSIC is becoming increasingly unrepresentative of indigenous people. In 1993 the turnout was just over 32 per cent, whereas in 1996 it had dropped to under 29 per cent.

This figure is little higher than the percentage of Aborigines who told the ABS 1994 Aboriginal and Torres Strait Islander Survey that they do not recognise any specific area or region as their homeland. If it is reasonable to entrust the administration and direction of Aboriginal affairs to a body to which little more than one in four Aborigines feels any commitment, perhaps it might also be reasonable to base native title and land rights policies on the attitudes of the one in four Aborigines who has no attachment to a particular home area.

ATSIC has a stock response to the argument that the low voter turnout shows that there is little justification for continuing with the organisation. It compares the ATSIC figures with those for local council elections, which in some States are not compulsory. The ATSIC Reporter, for instance, noted that in Western Australian local council elections the turnout varies between 6 and 41 per cent.

But local councils do not form electoral colleges to choose national leaders. With ATSIC, the thirty-six regional councils are organised into eighteen zones, and the councillors from each zone meet to elect a commissioner to represent them. These eighteen representatives, together with the Government-appointed National Commissioner and the Chair, form ATSIC.

Furthermore, an equally poor or worse voter turnout in local government elections does not mean that all is well with ATSIC. It is just as legitimate to suggest that most people feel as indifferent about their local councils as Aborigines obviously do about ATSIC. Whatever the explanation for this indifference, or even hostility, it is more likely to be the fault of the organisations rather than their supposed constituents.

Certainly, some worthy people have been elected to the regional councils. There are indications that a significant number of Aborigines with a good track record in small business were successful, and this would be a positive sign. Even more positive is the appointment of Gatjil Djerrkura as chair of ATSIC.

But any cheer about these developments has to be tempered by the fact that a number of people with a bad track record in ATSIC and elsewhere were also elected. Just as depressingly, some prominent reformers, such as Sharon Firebrace and Graham Atkinson in Victoria, failed to win re-election. The new Victorian State commissioner, Geoff Clark, interpreted the election results as reflecting a national swing to the left in Aboriginal politics. Despite his good sense and considerable ability, Gatjil Djerrkura will find it difficult to place his stamp on ATSIC to the extent that would be required if his views about economic self-reliance are to find fruition. Indeed, the very concept of ATSIC expresses notions of collectivism and separatism that do more to subvert than to assist the individual and family-focused approach that is the key to progress in overcoming the high rate of economic and social disadvantage amongst Aborigines.

Politically, it would probably be impossible for the present Commonwealth Government to move toward the abolition of ATSIC. Nevertheless, there needs to be widespread discussion about whether there can be any justification for the organisation to exist—and indeed, whether State and Commonwealth governments should continue with distinct departments of Aboriginal affairs, as opposed, say, to specific Aboriginal sections or programmes where these may be appropriate within mainstream departments. In the long run, the only kind of self-determination that ATSIC is ever likely to foster is the political kind, in which Aborigines obtain a collective status which differentiates them from other Australians to an even greater extent than is the case at present.
In 27 November 1996, the IPA brought together seven prominent Australians to exchange opinion on current government migration policy and desirable future policy—Dr Bob Birrell, Victor Borg, Professor Peter Lloyd, Terry McCrann, Michael MacKellar, Phil Ruthven and Theo Theophanous, MLC.

This heavily-edited transcript presents an overview, with some selected highlights of individual position statements and subsequent discussion on immigration policy. The debate was illuminating, good-natured and constructive. We regret only that we do not have sufficient space to publish it in its entirety. Out of the seven contributors, we have chosen three—Birrell, Ruthven and Theophanous—as being representative of clear points along the immigration spectrum. (The full text of the transcript is available from the IPA.)

Jim Byth introduces the debate.

Current policy, announced by Minister Ruddock in mid-96, is for an annual intake of 74,000, with emphasis on business and skilled streams. The ministerial press release stated:

The shift in emphasis is also due to the high and sustained levels of unemployment in the Preferential Family category. Under the previous government this category came to dominate the migration programme in an unsustainable manner.

We have acted to ensure Australia obtains optimal benefit from a non-discriminatory programme which balances our social, humanitarian, economic and environmental responsibilities.

Participants agreed to exclude many highly debatable issues (single or dual citizenship, long-term consequences of the Australian detainee system) to concentrate on the government policy and administration.

The result is a fascinating set of individual perspectives. To me, some highlights—

Dr Bob Birrell argues that it is in Australians' own best economic interests to keep population relatively low—although even a steady net intake of a minimum 50,000 annually would produce a 23 million population in 30-plus years. He also has some salutary warnings from recent research about the unintended consequences of government planning in both family reunion and skilled migrant (especially engineer) intakes.

Victor Borg expresses cautious optimism that Australia might get back to a functionally bipartisan approach to immigration, and a triennial rather than annual target. He thought an annual intake of 100–120,000 defensible and achievable. He makes a strong (and generally under-discussed) point about Sydney as the 'hot button' area of greatest migrant impact.

Professor Peter Lloyd sees diversity as the fundamental criterion for selection, and a 100,000 annual intake as feasible. He strongly supports more humanitarian and refugee migration. The family reunion systems had been wrongly permitted to grow unduly. Consider ecological concerns by all means—but farmers had much to answer for; and immigration little to do with it.

Terry McCrann sees immigration as unstoppable, and its policy issues important mostly where they interface with other major domestic ones (e.g., Mabo). The starting point should be hard-headed national economic self-interest. An intake of 70–100,000 with a mix of skilled and family is feasible.
Michael Mackellar (complimented by other participants for his record in the portfolio) sees a 60–70,000 intake as appropriate, saleable and defensible. The increasing number of Asian tourists can be perceived wrongly as migrants. A population of 100 million might be achievable, but very, very uncomfortable: one of 23–25 million was big enough to give economies of scale. That migrants are going to have an active, positive beneficial impact on Australia has still to be sold to the community. The Mackellar definition: non-discriminatory, but selective.

Phil Ruthven doubts that longer-term we have a choice about numbers, thinks an annual intake of 200,000 will set Australia alight, but will settle for 75,000 until we are performing properly on vision, thrift, focus and productivity—which now we are not. Our 2.3 persons per sq. km. compares with 85 per sq. km. in the Asia-Pacific overall. Desert and lack-of-water arguments make us look plain idiots. But you can be a very good small nation—12 of the 20 richest nations have smaller populations than Australia.

Theo Theophanous sees the yet-to-occur debate as to whether the migration programme should be elitist, which a concentration on skills implies, and which would exclude probably 99 per cent of the rest of the world—including his own parents if it had then applied, and probably people like Arvi Parbo. We want a society which is compassionate, multicultural, and unafraid of engagement with the world. If we can support 75,000, then we have still to hear good economic argument against 100 or even 120,000—economically sustainable, certainly manageable. People make their own visions.

Phil Ruthven’s opening statement:
I would be expected to give a long-term view, rather than a very short-term view. Just eight points that I think are important.

1. We are moving into a period where the decision on levels of migration won’t be ours alone to make. I am not suggesting that’s this year or next year, but I think as the world aggregates into bigger and bigger units of humanity the responsibility for immigration moves up the ladder. So no longer do the States of Australia determine immigration policy as they did before 1901; it’s now determined by the nation. As we emerge gradually into the APEC regional economy, we’ll find that gradually we will have APEC, not us alone, deciding what our immigration policy is, or at least being very influential. The global information village is going to be a de facto contributor to our immigration policy from outside as well. To decide this issue from inside is like an emu with its head stuck in the sand, it simply wants to pretend that the outside world doesn’t exist.

2. Our population density of 2.3 people per sq. km. is going to be known more widely by our 2 billion neighbours in the Asia-Pacific; and when you compare that to the 85 people per sq. km. of the Asia-Pacific we have got a gross distortion. I think that exerts pressure on us both morally and in other real ways as well. Now that’s not discounting the fact that we’ve got perhaps two-thirds of what Australians might call desert, but then again Japan with 126 million is 75 per cent mountains. Every time we talk about the fact that we haven’t got any liveable arable land, you’ve got tears of mirth running down the faces of most people around the world. We just look plain idiots every time we raise that desert or lack-of-water argument.

3. More immigration from the point of view of boosting our economy, to give us economies of scale, was an argument at one stage and never a good argument. Twelve of the 20 richest nations in the world on a GDP per capita basis have a

Some Facts About Migration

Immigration

Australia is one of four countries with permanent immigration programmes—others are Canada, New Zealand and the US. Although the US has the highest annual intake of immigrant numbers, and New Zealand has the highest immigration rate (per capita), Australia has the highest proportion of overseas-born residents in its population. This suggests that, over the last generation, Australia had the highest immigration rate of the four countries.

All four immigration countries have three broad categories of entry: family reunion, supply of needed labour skills and humanitarian considerations. Strong emphasis is given to family reunification, which is the largest category of entry—except in New Zealand, where demand for entry under this category is relatively low.

In 1995–96, there were 99,139 settler arrivals in Australia. The main birthplaces in rank order were New Zealand, the UK, and the People’s Republic of China. Five of the top ten source countries of immigrants are in the Asian region.

The numbers from China trebled from previous years. This was largely due to family migration arising from Chinese students who had previously gained permanent residence in Australia after being allowed to extend their visas following the Tienanmen Square massacre.

In 1995–96, 47 per cent entered Australia in the family stream (including 8 per cent in the concessional family category who are points-tested), 20 per cent in the skill stream (selected by points-testing for skill, expertise, age and English-language ability), and 14 per cent in the humanitarian programme (which includes refugees as defined by the
Asia-Pacific and not elsewhere: you begin in your quarter-acre blocks, by having much higher-density and much friendlier society, when we haven't got emerging, like the Gold Coast, we are going to find are going to continue that lifestyle into the twenty-first century, probably nearer to 150 million but that scares people half to death. We are very short-term thinkers.

5. I do not believe that it is the number of people that do ecological damage to a nation, but the type of people and the habits they've got. We had done more damage with 4 million by the turn of the century than 100 million intelligent people could ever do. Now we may have done it out of sheer accident and lack of knowledge; but by bringing in the rabbits and clear-felling and introducing salination, we've done a hell of a lot of wreckage with relatively few people—in fact, with a population less than Melbourne's today. So the argument about the number of people being directly related to ecological damage I think is a flawed argument.

6. Just because we are a wasteful style country today, on quarter-acre blocks, it doesn't suggest we are going to continue that lifestyle into the twenty-first century. I think with the newer cities that are emerging, like the Gold Coast, we are going to find a much friendlier society, when we haven't got individual fortresses with six-foot high fences on quarter-acre blocks, by having much higher-density level living with shared facilities.

7. Our obligation to immigrants will be in the Asia-Pacific and not elsewhere: you begin in your own backyard.

8. Immigration is largely neutral if not slightly positive in terms of its impact on the welfare of existing Australians. Immigrants in the immediate past five years have contributed about 25,000 to 30,000 homes a year to demand; not the year they arrive, of course, but within three years. If we want to apply some economic reasoning to immigration, I think we ought to be careful that we don't cut off our nose to spite our face even in terms of economics.

[During the debate:] Michael MacKellar rightly raised quality of life. To me, quality of life is always standard of living plus 20 years. We should never assume that quality of life is different from standard of life, it is only a time difference. In other words, give Singapore 20 years of a high standard of living and you will find Australia the most boring place on earth compared with Singapore, because they will have all the art works, the world's greatest culture, the greatest theatre, the greatest everything, so it will be an extraordinarily powerful, fascinating state. Renaissance Italy was only possible because of the immense wealth created and poured in to artists, sculptors, buildings etc., to make Italy famous.

Whilst I think immigration will be non-negotiable by the middle of next century in terms of numbers, I think it first behoves us to fix four things that are important for any nation to do well, and which we haven't got right yet.

First is vision. We are the only nation in the Asia-Pacific without a fifteen-year long-term plan, with five-year rolling plans.

Second, we have no thrift. We are the second lowest-saving nation in the world and the lowest in the Asia-Pacific. You need thrift for capital expenditure, to be master of your own destiny, and for dignified retirement.

Geneva Convention, and other humanitarian entrants. The balance is made up of other (non-visa) categories, including New Zealanders entering Australia under the Trans-Tasman Travel agreement.

New South Wales is the most popular State for settler arrivals, with nearly 45 per cent settling there. The reasons given for its popularity are location of family and friends, and employment considerations.

Emigration

Since World War II, settler arrivals have exceeded permanent departures from Australia, resulting in net annual gains to Australia's population from immigration. In 1995-96, there were 28,670 permanent departures from Australia, leaving a net gain of 70,469.

In 1995-96, over 60 per cent of the permanent departures were overseas-born Australian residents. The majority of these were born in New Zealand and the UK, with Australian residents born in Hong Kong and China also well-represented among those leaving Australia permanently.

Twenty per cent of the overseas-born who left Australia permanently in 1995-96 had been resident in Australia for less than 2 years.


Compiled by Tess Rod

Phil Ruthven is the Executive Chairman of IBIS Business Information and one of Australia's leading economic and social forecasters.

Tess Rod is an anthropologist and economist, formerly with the Bureau of Immigration and Population Research.

THE IPA'S IMMIGRATION DEBATE

MARCH 1997

REVIEWS

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Third, we are not as focused as Switzerland and other successful countries.

Fourth, we haven’t got high enough productivity to make a great nation yet; we are falling too far behind in world-best practice in most of the key industries.

I think all great nations were built on unskilled migrants and business migrants, they were never built on skilled migrants. If you look at the Rich 200 list today (I’m not saying that’s a measure of total success, it is only a monetary measure) I’ll show you first and second generation unskilled migrants who have come to Australia this century.

You build a nation on unskilled because they don’t threaten your skilled people; and you build on business migrants. I’m not saying you ban skilled migrants but they will never do as much for a country as the first two. That’s what built America, incidentally.

If I really wanted to set the country alight I would be going for nearly 200,000. Right now I’ll happily settle for 75,000 until we get those four basic platforms right: vision, thrift, focus and productivity. If that takes more than 10 years, God help Australia!

Theo Theophanous, MLC, opening statement:

Quite often the public debate on immigration is reduced to a debate between the ignorant and the misinformed on the one hand, and on the other hand it becomes a debate in code which people who are sensitive to the hidden messages are quite capable of understanding even though they are never actually articulated during the course of the debate. When Pauline Hanson says that we should cut out immigration until all Australians have a job, well, this could be written off as an ignorant statement or as a ridiculous statement with an obvious racist undertone. But when other people talk about the role of migrants in the economy and whether they assist the economy, this is a much more sophisticated set of questions and consequently the code too is more sophisticated. Quite often the debate about the economic effects of migration is presented as the only relevant question. Questions about humanitarian issues or what sort of society we want to build are seen as secondary, as the immigration debate will inevitably focus on this question of the economy because it is in the economic arguments where the codes are buried, most clearly understood and are most effective. More migrants means less jobs for Australians can be expressed in the most sophisticated of economic arguments.

On the environment front, when people say that we have an ‘ecologically fragile environment’ and that this is a reason for reduced migration, my response is that the whole of the world is made up of an ecologically fragile environment. To say that this one is more fragile than somewhere else and can only sustain a certain level of population compared to somewhere else, is a big statement, and I think you need a very significant set of arguments to put such a proposal. The conservationists in Australia, paradoxically in many instances, fall down on the side of a lower level of migration on the grounds of their concern about the environment. But, as a conservationist with a world view, you might also have some concern about the environment in other countries.

The set of arguments around preserving our low-density quality of life in Australia is also flawed. The truth about high density is that we have a very sophisticated infrastructure in the inner suburbs of Melbourne where we have electricity, gas, water and everything else piped in already and the cheapest way to increase our population or to put people in this area, in dual occupancy, in higher density housing and so on. Even from the point of view of quality of life, there is a significant argument about what happens in the suburbs and the sort of social problems that we are experiencing, particularly in the outer suburbs of Melbourne with a lack of infrastructure and facilities, compared to what we are able to achieve closer to Melbourne. So I think even in those arguments, you have to disentangle the code from what is being said and examine the facts and the social reality.

My concern more broadly is that although we might argue about whether our policy is racially discriminatory or not, the debate which has never really been had in this country, is the one about do we want an elitist one. The truth of the matter is that the skilled migration programme is very much an elitist programme. It actually excludes probably 99 per cent of the world’s population. It means that I and my parents would not have got to this country. It means probably that Arvi Parbo and many others also wouldn’t have got to this country if we applied the skilled migration programme that we currently have in place to them. There is an argument that the children of migrants may make a longer-term contribution than the migrants themselves and this seems never to be considered in the debate.

There is also a question of commitment to the country, as well as all sorts of other economic questions. For example, a lot of literature has been written on the benefits of unskilled migration to Australian works by the creation of a labour aristocracy. Indeed, it can be argued that one of the reasons that there was in some respects less concern about migration in some circles back in the ’50s and ’60s was that migrants came in at the bottom of the social structure. The thing with skilled migration is that they are actually coming in at a higher level in the social structure and the tensions then come
at those levels, particularly in more competitive labour markets.

However, it must be noted that, invariably, what tends to happen during times of recession is that the group that seems to have a higher unemployment level is not the existing Australians, but the migrants. There is even some evidence to suggest that if the buffer of migrants wasn’t there, it would be other Australians who would suffer unemployment during recession.

My argument is that we should aim to have a society which is compassionate, which is multicultural, which is welcoming and which is unafraid of engagement with the world. In that context, we should have a migration policy which is larger than the one that’s being proposed, and in terms of its composition, I think the overemphasis on skills and on English is not necessarily going to create a better Australian society—certainly not a more compassionate one, and perhaps not even an economically better-off one or a more cohesive one.

[During the debate]
I haven’t heard an economic argument which establishes that if we are supporting 75,000 migrants per annum, then we couldn’t support 100,000 or even 120,000 without much difficulty in Australia. And with respect to the composition, the question is not whether there is discrimination, but what are the criteria that are being used to discriminate or determine the composition. For example, I would say that there is too much emphasis on speaking English rather than other criteria which we need to examine more fully. We also need to examine industry sectors to see whether they have a future and whether migrants can contribute to that future. In manufacturing, for example, the chief criteria of success are probably innovation, design, technology, and marketing. Take Italy, which is one of the most successful textile producers in the world. There they are selling to a certain segment of the market and getting much more revenue than anywhere else because of innovation and because of design (in kangaroo leather too). But because we in Australia say we’re no good at this, we can’t compete with other nations and we proceed to define certain sections of industry as sunset and another section of industry as sunrise. We, by definition, consign them to the dustbin of history.

I have a lot to do with manufacturing industry in my industry portfolio responsibilities, and I can tell you that a lot of the migrants that are in there, are the innovators. Even though the government has said our vision is ‘This is sunset’, they’ve said ‘Well, we don’t accept that and we are actually going to try and build’. And a lot of them have actually done this. My bottom line for migration levels? I think 100,000 to 120,000 is economically sustainable, certainly manageable, and that secondly we have to look very closely at the criteria for discrimination that we use in determining that 120,000.

I think that in the end the government vision about sunset industries and sunrise industries is incorrect. I actually think that people make their own vision and they come to this country as a result of a whole range of factors. If we let them in they’ll find their own vision, and they’ll make their contribution to this country—there’s very few of them that actually don’t.

Dr Bob Birrell’s opening statement:
I agree with Michael McKellar that national sovereignty has got to be the starting point with immigration policy. To his credit, during his ministry in 1978, of the nine principles enunciated as guiding policy, the first was national sovereignty. I also agree with other comments here that we cannot turn off the tap when it comes to immigration numbers. We have manifold linkages with communities around the world so it’s more a matter of tighter management of the programme than draconian reductions.

I think in practice we lost an element of national sovereignty or control over the immigration programme in the late ‘70s and early ‘80s. This leads me to agree with the perspective of the current government that the rules governing entry, particularly for the family reunion programme, should be tightened.

In the late ‘70s, early ‘80s the Liberal and Labor governments basically responded to the pressure of ethnic communities to open up the family reunion programme so that controls over spouses/parents were diminished and we...
opened up a new major avenue of entry via the concessional programme (mainly brothers and sisters). Although lobbied for by the Italian and Greek communities in particular, these new opportunities were not taken by those communities, but rather, in the main, by the recently arrived smaller Asian and other non-European communities. So through the '80s we developed a series of bridgehead communities which link back to societies with very powerful migration 'push' pressures and strong family ties. This led to a very substantial growth in the family reunification programme. Immediate family numbers have more than doubled over the past decade to reach 48,000 in 1995–96, mainly from the small rivulets started, in some cases through the family reunion programme itself (as with Filipino brides). In addition, the Indo-Chinese refugee programmes and more recently the Chinese asylum seekers, have subsequently led to substantial family reunion, such that they are now the largest sources of family reunion, along with Britain.

That in turn has led to serious welfare settlement problems. Our analysis shows that about a third of all those coming under the family reunification programme who were entering the labour force require labour market payments in the first few years of settlement in Australia. When it comes to parents, after the first two years of residence here about half receive some form of welfare assistance. This help lasts for life. Dependence levels are particularly high amongst the Indo-Chinese, the Chinese and some of the other communities where the parents come from low income societies, and do not bring portable pensions with them.

The government is justified in seeking to control these flows. Last year there were 34,000 spouses.visited, meaning that one in every four marriages contracted by Australian citizens or permanent residents in 1995–96 involved a migrant party. In the case of the Indo-Chinese, Chinese, Lebanese and Turkish communities, the majority of marital eligibles are actually going back home for a partner rather than choosing from within their own community here or outside that community. The direction of control ought to be to ensure that the Australian resident sponsor is indeed responsible for and has the resources necessary to provide for the welfare of the sponsored person in the first few years. At present, the rules governing spouse sponsorship are such that no matter what the resources of the sponsor are, he or she can still bring the marriage partner in.

As far as skilled migration is concerned, there are real problems as to how it should be managed. We've just conducted a gigantic experiment with an open-ended or non-targeted skill programme. Through the late '80s we were taking over 15,000 professionals annually, including 3,000 for 4,000 engineers. Subsequently, with the recession, many of those people have been left high and dry, particularly the engineers, because the number of engineers employed today is actually about the same as it was in '91, and we've got 5,000 or 6,000 graduates of our own coming on to the market every year. If people argue for bigger growth in skilled migration, it behoves them to indicate how they are going to select such persons, and where they fit in to an economy which is limited in its growth trajectory by balance-of-payments and other constraints.

I think the direction the government is currently going toward—emphasising skilled migration on temporary entry basis—is the way to go. There has been a major change in policy in this regard in the last year or so. The change started when Senator Bolkus was Minister following the Roach Report on temporary entry, which he commissioned. This 1995 Report recommended a fundamental deregulation of the temporary entry selection process for skilled migrants. These recommendations were implemented by the Coalition Government in August 1996. We now have an open-ended temporary entry procedure for skilled migrants which requires no labour-market testing to ensure Australian residents are not available, and no assessment of the sponsoring employers as to their record in local training or skill transfer.

The good part of that is that at least the sponsorship process requires the employer to identify a particular person who has got a skill that is supposedly needed by the firm and therefore there is a position for that person here. The other positive is that it doesn't lead to the subsequent family-reunion or long-term
settlement problems associated with the permanent resident stream.

The negative side of it, which we are now monitoring (we don’t know the numbers or occupations involved yet because the process has only begun) is that in a multinational world in which many employers are overseas-owned and there is great pressure for ‘just-in-time skills’, the new temporary entry process will result in a substantial increase in the skilled migrant flow. In the process, the flow may seriously impact on the prospects for our own skilled people.

[During the debate:]
We are after all encouraging inflows of overseas students, tourists and working holiday-makers. Likewise Australians are increasingly mobile. This encourages social links with foreigners. So it is inevitable that we will have a relatively high family reunion process. I think that probably an annual net migration intake of 50,000 is about as low as we can contemplate. If we did sustain a number like that, it at least has the merit that, over a 30 or 40 year period, our population would actually stabilise at around 23 million. That is because in about 30 years’ time the net 50,000 will balance the excess of deaths over births within Australia.

I disagree with Phil Ruthven’s view that Australian elites have no vision for Australia. To me there is undoubtedly a clear-cut vision animating economic policy at the moment, and that is that Australia should be a successful global trader. The core idea is that we do those things in Australia in which we can compete in the international market place. This basically means concentrating on rural and mineral commodities or selling our attractive landscape as a tourist resource.

Now, our comparative advantage in Australia in such areas has to do with our relatively favourable resource-to-population balance. The only reason why we can export rural products or most of our mineral products is because we have a small population.

The implication is that it is actually in the interests of Australians to keep their population relatively low if they wish to maximise per capita economic advantage. We are rent-seekers, we are getting benefit from our favourable population-to-resource base. Likewise our lifestyle, including aspects of this country that most prize, like our easy access to recreation facilities and our relatively land-extensive suburban lifestyle, are built on our favourable population-to-resource ratio.

I think the direction the government is currently going toward—emphasising skilled migration on temporary entry basis—is the way to go.

Immigration and Unemployment: The Economic Evidence

HERE is a large body of detailed research evidence which shows that changes in the level of net migration have had a negligible effect on the overall rate of unemployment. On the one hand, immigration adds new workers and a new supply of goods and services. But on the other hand, immigrants also add demand for goods and services, thus leading to the creation of new jobs. On average, over the last fifty years, the increase in overall demand and new jobs associated with immigration roughly equates with the number of extra jobs sought by the immigrants.

In the period since World War II, immigration has accounted for about one half of the growth of the Australian work force. From 1950 to 1996, the work force more than doubled—from under 3.5 million people to 9.0 million people. Immigrants have tended initially to have a higher workforce participation rate and higher skills than native-born Australians. Over time, however, it becomes more difficult to distinguish the immigrants from other Australians. The frequently-expressed view that immigrants take the jobs of existing members of the workforce tells only half of the more complex story of the effects of immigration on employment and unemployment.

Immigrants, just like other Australians, demand goods and services, and increase demand in several ways. First, immigrants spend on goods and services for household consumption purposes, including food, housing, clothing, and recreation. In fact, several studies find a higher average propensity to spend among immigrants than among other Australians. Second, governments provide services to immigrants along with the rest of the population—services such as housing, education, health, and welfare.
and infrastructure. Third, the employment of additional Australians, whether immigrants or native-born, requires complementary investment in machinery, buildings and suchlike by business enterprises. And fourth, these first-round expenditure effects of a larger population then set off a series of second-round, or 'multiplier', effects bringing further increases in consumption, investment and government expenditure.

The increase in overall demand for goods and services is translated into an increase in demand for labour, and other productive inputs, to provide these goods and services. Some of the additional demand can be met by using existing resources better; from stocks, or from imports. But none of these avenues is large, and they are not sustainable over an extended period. Most of the increase in demand arising from immigration then finds its way into an increase in demand for more jobs to provide the goods and services sought by households, businesses and governments.

A key question for the discussion of the link between immigration and unemployment is the relative size of the effects of immigration on increasing either the demand for jobs or the supply of jobs. If immigration adds more workers than demand for new jobs, then it causes pressures for a combination of a fall in real wages and an increase in unemployment. Conversely, if immigration adds more to demand than it does to supply capacity, the pressures are for an increase in real wages and less unemployment. Should the two effects roughly balance, then immigration would have a negligible effect on real wages and overall unemployment. Ultimately the answer to the question is an empirical issue.

Fortunately, considerable research analysing the effects of immigration on employment and unemployment, and on other measures of economic performance, have been undertaken in Australia. Quantitative studies of the links between immigration and aggregate unemployment summarised in the reports (see note in column)* include studies using macroeconometric models and studies using tests of causation.

Different sets of analysts have used the Murphy, IMP and ORANI macroeconometric models to assess the effects of different levels of immigration on a range of measures of economic performance. These models are widely used by government departments and agencies, business organisations and by academics for the analysis of policy options. Results from the different models, and for different assumptions for a model, find that immigration adds about the same to demand for employment as it does to the supply of workers. That is, immigration has a negligible effect on both the real wage and the aggregate level of unemployment. (All models simplify in order to be workable; and their results are, of course, dependent on the simplifying assumptions.)

Tests of causation between immigration and unemployment are based on actual outcomes, and are not constrained by the assumptions imbedded in the macroeconometric studies. Using observed data on immigration and unemployment for the past fifty years, no evidence has been found linking changes in Australia's net immigration numbers and changes in the aggregate unemployment rate. There was some evidence that increases in Australian unemployment induced a fall in the future net immigration level.

Overall, the empirical evidence strongly implies that immigration has had a negligible effect on the aggregate unemployment rate. That is, immigrants—through their increase in aggregate expenditure on goods and services—have generated about the same number of additional jobs as the additional jobs they have sought to fill.

The discussion so far has focused on the links between immigration and aggregate or average unemployment. A more detailed analysis, by categories of people, finds that immigration has some compositional effects. In general, native-born workers are net gainers in employment, because of the increases in aggregate demand and the extra jobs generated by immigration.

Immigrants, and especially these with poor English-speaking and -writing skills, are disproportionately represented in the unemployed. In part, their high unemployment reflects the fact that new entrants to the workforce experience relatively high unemployment rates. In part, too, it reflects real and perceived low skills, and these problems tend to decline with longer residence in Australia.

The clear implication for policy-makers of the large body of research on the links between immigration and unemployment in Australia is that there is no causal link.
Can Hong Kong Remain Free?—Scenarios for 1997

DAVID ARMSTRONG

In October 1992, a word went missing from the Hong Kong political lexicon—'co-operation'. At that time, the last British Governor of the Territory, Chris Patten, defied China by introducing a modest measure of extra democracy. This was something of a death-bed conversion to democracy on Britain's part, coming, as it did, after 150 years of British rule and less than five years before Britain was to take the unprecedented step of handing over a colony to another sovereign power. The hand-over takes place on 1 July this year, when the six million people of one of the richest capitalist societies come under the authoritarian rule of the People's Republic of China.

Beijing's reaction to Patten's proposals was unmitigated outrage. It regarded the plan as a British plot to extend its influence beyond 1997, presumably by arranging for its supporters to be elected to positions of power under its electoral system. Further, China was intensely suspicious of the democratic aspirations of Hong Kong people, if only because the Tiananmen Square protests of 1989 had been sustained by substantial financial and communications support from the Territory. Beijing had squashed one rebellious threat to its power on the night of 4 June 1989; it did not want democratic ideas from Hong Kong, soon to be a part of China, polluting the rest of the country.

While the ferocity of China's reaction could have been predicted, Patten and his advisers miscalculated its longevity. The row has fundamentally rearranged the 1997 political landscape. The best that can be said for this changed terrain is that it is a lot rockier for those who want to maintain the freedoms that Hong Kong's people now enjoy.

There were two broad criticisms of Patten's unilateral declaration of democracy. One is that the inevitable confrontation with China produced enough uncertainty to damage Hong Kong's lifeblood—that is, business. Given the initial slump in the stock market and China's enhanced political sensitivity to some proposals emanating from Hong Kong, the criticism might be valid for some businesses. But, in general, the forecasts of gloom and doom have been misplaced: the engines of Hong Kong's economy—the stock exchange and the property market—are operating at or near record revs.

The other is that, perversely, Hong Kong will return to Chinese sovereignty in a less democratic form than would have been the case had Patten left everything alone. The reasoning goes like this:

Before Patten's arrival, the Legislative Council (Legco) was partly appointed, partly elected by popular vote and partly elected on restricted franchise. China and Britain had agreed to this system, and it was understood that Legco members would aboard a 'through-train' in 1997. This understanding was supported, but not guaranteed, by a 1990 decision of the National People's Congress. Patten, while leaving substantial elements of the restricted franchise intact, widened the popular franchise. But his action led China to claim that Britain had breached their agreements and understandings, so all Legco bets were off. China has decided that the members of the Patten-style Legco, elected last year, will be sacked at midnight on 30 June. They will be replaced by a Provisional Legco, elected by a Selection Committee of 400 members who were themselves picked by a Beijing-appointed body, the Preparatory Committee, set up to make arrangements for the transition. We can blame China for over-reacting if we like, but the effect is the same: as a result of Patten's reforms, a mainly-elected, if only partly-democratic, Legco will be replaced by a virtually appointed body, the members of which are ultimately beholden to Beijing. So here is one political scenario for 1997: there is to be no politics!
THE FUTURE OF HONG KONG

intended to follow the progress to democracy outlined in the Basic Law. But there are other less formal ways in which the 1995 elections and Patten’s advocacy may yet prove significant in shaping Hong Kong’s future.

LET DEMOCRACY BLOOM

Looking ahead, we can rule out one scenario very quickly: since its chances are those of the proverbial snowball in hell the ‘let democracy blossom’ scenario—China will change its mind and decide to accept Patten’s reforms, shunt the through-train out of its siding, yell ‘all aboard’ to the existing Legco members, and send them off on a journey to the next scheduled election. But the battle with Britain has been too intense for China to back away from. Moreover, China seems satisfied with the way its arrangements for the hand-over are proceeding. Professor Joseph Cheng, a political scientist at the City University of Hong Kong, recently wrote that Chinese authorities were particularly encouraged by the fact that 6,000 people applied to join the Selection Committee: ‘With the exception of the pro-democracy camp, the applicants covered the elites in all sectors of the community.’ There may be no through-train, but there is a bandwagon.

DICTATORSHIP

I hope we can also rule out its opposite, the dictatorship scenario: China will immediately impose a full-blooded authoritarian regime, with direct rule from Beijing backed up by units of the People’s Liberation Army patrolling up and down Connaught Road.

In playing down this scenario, I refer to the rapid imposition of an authoritarian system of government. I do not mean to minimise the risk of a crackdown on pro-democracy activists when China resumes sovereignty, or of an attempt to suppress protests against the sacking of the elected Legco and the take-over of government by a Provisional Legco which lacks popular legitimacy. I assume there will be protests, that pro-democracy activists will not meekly accept the destruction of the gains they have made. The protests will present an immediate test to Beijing and Hong Kong’s new rulers. In Chinese eyes, the return of Hong Kong ends 150-odd years of shame. It is one of the most important events in modern Chinese history. Beijing will not be inclined to tolerate actions which might mar the celebration. The wise course would be for the authorities to react calmly to any demonstrations; red-blooded repression would send negative signals to the world and to the people of Hong Kong. It would belie the image of a benign regime presented in the Basic Law and implied by the concept of ‘one country, two systems’. Importantly, it would damage business confidence, a critical element in the chemistry which makes Hong Kong work.

China has learned from the international reaction to the Tiananmen killings and would certainly want to avoid a crackdown on that scale of severity. But it may not be able to reset reacting to July protests with cracked heads, arrests and imprisonment. The dictatorship scenario, however, is unlikely for several reasons. One, China is wary of destabilising Hong Kong—of killing the goose that lays the golden egg. Moreover, the Basic Law, the Hong Kong constitution, offers local autonomy and the maintenance of traditional freedoms. It is a Chinese document and has been the subject of too many reassuring statements by Chinese leaders for them suddenly to renege without immense loss of face internationally. That loss of face, and trust, would be magnified by the huge influx of international media into Hong Kong. The international reaction, not least from the United States, would be damaging. President Clinton may have signalled a more pragmatic approach to China in his address to our Federal Parliament last November, but any Chinese outrages in Hong Kong would arouse Congress to an anger he could not ignore.

A variation of this scenario has been outlined by Professor Cheng: the ‘delayed dictatorship’ scenario—‘More and more Hong Kong people believe that since Hong Kong in 1997 will be the focus of international media, and that Chinese leaders are most concerned about face, all should be well in 1997. However, the Chinese Communist regime’s inclination to control will be much less deterred by 2000’. Indeed, part of the motivation for some of us who backed Beijing’s bid for the 2000 Olympics was to keep the international spotlight on China for a further three years—to buy time for Hong Kong.

If there is no rush to impose Beijing’s authority in 1997—whether through goodwill and common sense on China’s part or because of international concerns—the effect will be exactly that: to buy time. Time to put Deng Xiaoping’s concept of ‘one country, two systems’ into practice and to try to make it work.

THE THIRD TRANSITION

This brings us to another scenario, which I believe on balance to be the most likely, at least in the short term: the ‘third transition’ or ‘work-it-out-as-we-go’ scenario.

Hong Kong’s return to China involves three distinct transitions.

The first has been going on for a decade or more and will continue long after 1997: the Territory’s economic integration with the mainland, first with southern China and later with Shanghai.

The second is the formal transition: the Territory’s return to Chinese sovereignty; the installation of a new government for the Hong Kong Special Administrative Region; the inheritance, on terms already thrashed out in open acrimonious negotiations, of the responsibilities of governing—from building the new airport to running the legal system.

The third transition has begun and will continue well after 1997: this involves the leaders and people of Hong Kong working out their relationship with China—and vice versa. Some of the more thoughtful people in the pro-China camp call it the real transition. It will be a process in which each side tries to discover what the other wants and expects and in which each tries to work out the practical limits of its authority. Beijing’s approach will undoubtedly be
characterised by a desire to control but also by caution against interfering too much, for if it damaged the spirit of Hong Kong it would also risk destroying its chance of showing the world it could run the city just as well as the British. Hong Kong’s approach assuredly will be marked by acquiescence but also by some assertiveness in trying to preserve features of Hong Kong which are essential to its business operations and to its style of living and working. This seems a lopsided relationship, for Beijing has all the power; Hong Kong’s leaders, however, have the advantage of a better understanding of what makes the city tick.

It is here, paradoxically, that Chris Patten becomes important.

Patten’s electoral reforms will soon be ditched in the dustbin of history. But the impact of the 1995 Legco elections will last much longer: For they had a profound effect on many pro-China political thinkers and, through them, on some pro-China business leaders.

The elections saw Martin Lee’s Democratic Party score a clear victory, winning some 60 per cent of the vote. Pro-China political thinkers did not need to read too many electoral tea leaves to see that majority opinion favoured democratic values and the guarantees they provide for people’s freedoms. The people also want representatives who will stand up for them in dealing with the local administration and Beijing. There is a paradox here, underscored by Martin Lee’s receiving a low rating as a potential chief executive of the Special Administrative Region while his party dominates the polls. The people do not want a leader who confronts Beijing but they do want representatives who will defend their interests.

Another point from the 1995 elections, not lost on some pro-Beijing figures, was that the backing the Chinese Government gave to pro-China political parties, through the Xinhua News Agency, the unofficial embassy in the Territory, appeared to have been counterproductive.

The election results intensified a debate within pro-China circles between those who believe the incoming government can impose its wishes on the people, who would have no choice but to acquiesce, and those who believe that the Preparatory Committee and the new government have to explain their policies and bring the people along with them. Within Hong Kong, if not always in Beijing, the latter group seem to be winning the debate.

The third transition will require Hong Kong’s incoming leaders to perform an amazing balancing act. I believe at least one well-known pro-China figure decided not to contest the race to become the first chief executive because he thought he would fall from the high wire—he could not do the job without making himself massively unpopu-
The Future of Hong Kong

The way so that business people can get on with making money. It is no surprise that in one South China Morning Post interview, Tung was not interested in accelerating the introduction of full democracy: 'Politics is a means to an end, not the end itself.' He wants a strong, but small, executive-led government, dedicated to preserving... the rule of law, an independent judiciary, conservative fiscal policy, low tax structure, good civil service [and at] level playing field.

Tung made much of the importance of stability. His difficulty will be to reconcile two different types of stability. There's the stability which comes from continuity, from preserving Hong Kong's traditional freedoms and values. Then there's the stability which comes from giving in to Beijing's wishes. But he seems willing to try. Tung, who described himself as cautious and prudent, said he would stand by his principles but would avoid open confrontation: 'To quietly negotiate and look for solutions does not necessarily mean weakness. There are many ways of getting things done. This I think is the right way, a very Chinese way.'

The chief executive is no great fan of Chris Patten, yet two of Hong Kong's characteristics he wants to preserve owe much to the outgoing governor's advocacy—another instance of Patten's influence extending beyond 1997. These are the rule of law and an independent judiciary. Both are novel concepts in China and can be expected to be under pressure after the hand-over. Patten (and Martin Lee) repeatedly stressed the importance of the rule of law and the independence of the judiciary as essential for safeguarding Hong Kong's freedoms. They do not necessarily guarantee freedom, but without them there is no chance. Hong Kong's business people do not rate civil liberties issues very highly but, consciously or not, Patten's advocacy has struck a chord: they understand the importance of the law in providing social stability, in laying down the rules in which businesses work, in guaranteeing the sanctity of contracts and in protecting against the kind of arbitrary arrest which can occur in China when deals with the powerful go awry.

Hong Kong business people generally are plugged into China, so it is instructive to look at their post-1997 expectations. The Better Hong Kong Foundation, a well-funded business group set up to spread the good word internationally about the Territory's economic prospects, recently polled 179 business leaders. Two thirds expected economic growth to continue at least at current levels and 70 per cent remained confident about the business environment. Taxation, the economy; government economic policy and the police force were rated highly (that is, above 50 per cent) as areas in which Hong Kong would retain a high degree of autonomy. In a phrase heard often in Hong Kong these days: 'so far, so good.' But they were less confident about the future of the legal system, immigration and the Government itself—and much less so about human rights, the media and the political system. They also were concerned about corruption. On all these counts, they are being realistic.

It is often said that Hong Kong lacks democracy but it has freedom. At best, democracy faces an uncertain future. Let's fast-forward just a little—1998, when the first post-hand-over Legco election is due to be held, still on a mixed franchise. Preparatory Committee members are working hard trying to devise a system of voting which will deliver what they call the right result. The result is one where the party which gets more than 50 per cent of the vote—the Democrats—gets about a quarter of the seats, so that their views are heard in Legco but they cannot dominate. We can see the balancing act at work—trying to meet the wishes of the Hong Kong people and the Beijing leadership. Again, there are limits: I believe that Beijing long ago took a decision to bar Martin Lee and one or two of his colleagues from standing. All that remains to be decided is the mechanism for keeping them out.

 Freedoms in Hong Kong have traditionally relied not on democracy but on the values of government and of the people on a determination to preserve the independence and incompatibility of important institutions—such as the courts, the police force, the Independent Commission Against Corruption and the Monetary Authority—and to retain the standard democratic freedoms—freedom from arbitrary arrest; freedom of association, speech and the press; freedom to travel; freedom to buy and sell private property. Freedoms all underpinned by the rule of law.

The topic today is 'Can Hong Kong remain free?'. It can, if its leaders are willing to fight, however privately for them and to continue to explain to Beijing the importance of Hong Kong's freedoms in making the city and its economy work. Continual explanation is essential, for there is very little understanding in Beijing of how and why Hong Kong is successful. Above all, Hong Kong's post-1997 leaders have to keep reminding Beijing of the importance of the assurances spelled out in the Basic Law and implicit in the concept of one country, two systems.

A tougher question is 'Will Hong Kong remain free?' If you were betting, you wouldn't want to put your house on it—or your life. But the words of a leading pro-Beijing businessman, David Chu, are relevant here. In the South China Morning Post recently, Chu spelled out the qualities of the ideal chief executive: 'The chief executive has to impress upon his constituents that, one, he is not beholden to China; two, he is true to the letter and the spirit of autonomy for Hong Kong; three, he is not biased either against big business or the democrats; four, he presides over the civil service without undermining its morale with excessive, stifling control; five, he has the interests of the whole society as his lode star.'

Views like these are common among members of the Preparatory Committee who, no matter what their allegiance to Beijing, are Hong Kong people who have to live there well after 1997. If they are willing to stand up for these beliefs, freedom has a fighting chance. But only that.
The Economic Implications of the Take-over

ILL Shanghai eclipse Hong Kong as China's international finance centre, and will Beijing squash the free market environment? These are the two questions I'll seek to address in my comments to you.

We know that Hong Kong is a very successful economy, but it is interesting to reflect on what its fundamentals actually are.

If you asked me to list what are the fundamentals of its success, I would say, first, 'the harbour'. That may seem an obvious fact; but I'd make the same comment in respect of Singapore: both began as providing key entrepôt trade infrastructure systems for larger economies. And that harbour on that coast is still of fundamental importance. Hong Kong is China's international gateway, and Hong Kong's trade performance and China's trade performance are inseparable factors.

In that respect it has become, in fact, an integral part of a regional economy: when you look at Hong Kong you really do need as well to look at the Pearl River Delta, at the economy of the Guangdong region. From the economic perspective, you have in fact got a very significant 'tiger' in the southern part of China—a tiger by any of the normal indicators, whose economy is bound up with Hong Kong's. So Hong Kong is now China's international financial gateway, and a very vibrant, healthy, sophisticated international financial centre.

Another key asset in Hong Kong is the framework of law. We may overlook the importance of this for economic development; but if you examine economic success around the world, the nations that are successful are those which provide a stable environment for capital to do what it has to do. The framework of law cannot be underrated, and Hong Kong probably has the best framework of law of all the Asian economies with the possible exception of Japan.

Hong Kong's other great asset is its human resources. This strength grew from its strategic placement, its history and politics, not least the dynamic group who set up in Hong Kong after the communists took over in China, who provided entrepreneurial leadership and capital. For many years, it also had a low-cost labour force which became the basis of a very dynamic light manufacturing industry. Its economy now has significantly shifted: Hong Kong today has changed—there is very little manufacturing there—and is now a classical case of a service economy which supports and manages manufacturing elsewhere, in this case, the Pearl River delta.

So what now is Hong Kong's essential economic role? Again it needs to be seen in the context of being China's international business gateway. It has in fact served an important function as a capital recycling centre. This shows up in the statistics for investment in China, statistics which show some idiosyncrasies which need to be looked at quite closely.

International business is still hesitating about moving into full-scale investment in China—not least because of uncertainty about the framework of law. Most of the development that we are seeing in China is still basically taking advantage of low labour costs, and is still basically light
"To have a world financial centre you need a stable market, a strong currency, full currency convertibility, and no boundaries between movements of capital. All of that applies in Hong Kong; none of that applies in Shanghai."

"International business is still hesitating about moving into full-scale investment in China—not least because of uncertainty about the framework of law."

"The future rival to Hong Kong?"
posed to the Guangdong hinterland. To a large degree the success in Guangdong has been a creature of regulatory management in Beijing. Most exporters are given export rights by Beijing and they are allowed to export if they earn foreign currency. This is a regulated system, which could be quite easily changed by the stroke of a pen.

In Jiangsu and Zhejiang provinces, which are key parts of the Shanghai hinterland, you also have seen significant growth in manufacturing but this is of quite a different sort. The growth that has taken place there has been without regulation; it is a function of the earlier phase of agricultural deregulation. Farmers have been able to trade more widely; have built up some capital, and have become small entrepreneurs who are building competitive businesses which aren’t dependent on regulation from Beijing. It is therefore a fundamentally far stronger and far more durable economy, and export growth out of those two provinces is at about the same speed as what we have seen down in Guangdong.

If you work on the principle that a strong healthy economy is what underpins a regional area, you might say that in the longer run Shanghai will be an economic mistake, because China is not ready. But it will be a political decision: unfortunately Washington and Brussels have mismanaged this issue to the point where they have created a political problem which has to be solved by China’s entry.

Why isn’t China ready to go into the WTO?

The WTO is a system which actually requires economies to be able to demonstrate that they have, and can manage, a full market system. Most exporters are given export rights by Beijing. It is therefore a fundamentally far stronger and far more durable economy, and export growth out of those two provinces is at about the same speed as what we have seen down in Guangdong.

China’s economy is still mixed. The state-owned enterprise sector is its largest problem. If they act on this, until they take a decision to go the next stage of reform, they will not be able to participate in the WTO. This takes us back to the importance of the market operating within the rule of law; as a structure which enables businesses to make proper assessment of risk and investment if China can’t manage that, then how will it be able to understand the consequences of introducing a market system in their agencies simply do not understand what it is about.

So what will be the impact of 1997 on those fundamentals that form Hong Kong’s basic strengths? It will still have the harbour, and in fact it will have the best functioning airport, and it will remain a trade service centre. There is a longer-term issue as to whether the Pearl River delta will be economically stronger than the Yangtze delta. Hong Kong’s rights to maintain an independent economy (which it has in international law—it is an independent member of the WTO, as indeed is Macau) will in the end count for very little in the face of political control of policy by Beijing.

My judgement is that I don’t think that we will see any overnight change, but the doubtful future for the institutions which make Hong Kong so dynamic and underpin the independence of its economy means that we will see a steady slowdown in growth.

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**Why isn’t China ready to go into the WTO?**

**The WTO is a system which actually requires economies to be able to demonstrate that they have, and can manage, a full market system**

may have better prospects than possibly do Guangdong and Hong Kong. This is a long-term perspective.

In the end, the crucial factor in Shanghai’s challenge to Hong Kong is political influence. Hong Kong people are outsiders in Beijing; people from Shanghai are insiders, and China is still basically a centrally-controlled economy. I think this must be the factor of greatest concern in Hong Kong—whether or not regulatory favour will be directed towards Shanghai. Regulation won’t bring a better economic result, but the bias lying behind it is probably Hong Kong’s biggest problem. Even then, I think the problem is less to do with the economic challenge from Shanghai than with the political challenge from Beijing. The issue is probably less Beijing’s unwillingness to allow a market economy in Hong Kong than its capacity to support one.

That brings me to the issues that have been canvassed about China’s accession to the World Trade Organisation. Probably early this year there will be a decision, led by a change of position in Washington, to bring China into the WTO. That
China—How Stable is the Monolith?

MICHAEL O'CONNOR

From 1 July 1997, ownership of the British Crown Colony of Hong Kong will revert to China. And with it will go the 'ownership' of its six million inhabitants—for the People's Republic of China regards people as its chattels rather than its owners. Ownership of China and its assets is vested in the Communist Party of China which then determines which of its people may share in those assets and to what extent.

Despite promises to respect the real political freedoms which exist in Hong Kong, China cannot afford to allow Hong Kong a special political status based on those freedoms. To do so would be to release a fatal virus into an already debilitated Chinese body politic.

China may, in fact, be experiencing one of its regular cycles of dynastic collapse, as the Communist Party leadership struggles to sustain its power and authority. The last collapse, that of the Ch'ing dynasty, extended over half a century or more and led to a century of chaos which is yet to be overcome.

Despite the economic reforms in the PRC, there exists a fundamental contradiction between rapid economic development on the free market model and a centralised and dictatorial political regime. The contradictions are exacerbated by China's immense size.

China has attracted world attention for the immensity of its economic growth. Based upon straight-line projections, this promises that China will have the world's largest economy by the year 2020. With an almost bottomless supply of labour unprotected by either government or any genuine labour movement, China has become the Mecca for foreign investment, much of it from Japan and Taiwan.

On the other hand, economic growth is restricted mainly to eastern and southern regions of China, with their ready access to export markets. Elsewhere, the failure to invest in modern agricultural technology, coupled with the migration of 100 million peasants to the cities in search of work and a decline in available agricultural land, actually threatens famine before the magical year 2020. An increase in food prices at the farm gate could reverse that process, but the party leadership cannot afford the alienation of the cities that would result.

Taiwan, originally the refuge of the defeated Nationalist government of the mainland in 1949, has become one of the great success stories of modern Asia. With a per capita GDP four times and inflation one-fifth that of the mainland, and with foreign exchange holdings roughly equivalent to the mainland's foreign debt of $140 billion, Taiwan is showing how a Chinese community can modernise economically and as a democratic polity.

Despite its size, China is also militarily impotent compared with Taiwan. Despite its confrontation with off-shore missile firings early last year, Taiwan's smaller but much more modern armed forces could have defeated any Chinese threat except a self-defeating nuclear attack. The prompt American intervention then was politically valuable but militarily unnecessary.

Napoleon Bonaparte once warned against awakening the sleeping giant of China. China is awake but, like Rip van Winkle, is finding adjustment to the modern world threatening. China's success depends upon developing a genuinely democratic system which, given the country's size, may require a genuine federal system.

Michael O'Connor is Executive Director of the Australian Defence Association.
Renovating Civil Society

Commentators of all political colours seem to agree now that civil society is under threat. But what is civil society, and how do we set about saving it? Patrick Morgan provides some answers.

Here are three levels in any state: government, intermediate organisations, and the private sphere of individuals and families. Our civil society is distorted because we allow government and middle-level organizations to form alliances which can threaten the room to manoeuvre of ordinary citizens. At the same time, too little emphasis is placed on the absorption of private activities into the middle sphere. Many people have no local, small-scale community groups to relate to. A strong middle realm of voluntary communal agencies and semi-government quangos acts as a transmission belt, and also as a cushion between rulers and citizens. Societies with high levels of involvement in voluntary groups have greater social cohesion, and fewer problems such as crime. This has economic benefits, because it prevents social breakdown, and so it's known as 'social capital'.

Distortion

In addition, the composition of the middle layer has changed: voluntary community organizations have declined, to be replaced by large, government-funded top-down ones—quangos like universities, welfare agencies and semi-government tribunals. This has distorted our civic culture, and weakened the mediating function of the middle sphere. The middle realm, far from being a cushion protecting citizens from the state, can itself become a mechanism of control by governments, rendering ordinary people societally mute. This is a form of corporate state—a cosy alliance of the powerful. People with problems can't effectively seek relief from the sphere above them, if that realm is facing towards the government and acting against their interests. The public focus has to be shifted toward the links between private individuals and voluntary community organizations—this is the key link in a properly working society.

Changing Attitudes to Institutions

Change came about with the 'me decade', when institutions were no longer treated with deference, but could be ransacked in the interests of one's own gratification and career path. Institutions were also deflected from their stated purpose by the adversary culture, whose attitude to institutions was to corrode their authority systems by ridicule, enthrism, power-seeking and other Leninist tactics. Our role, we thought, was to criticize and dismantle authoritarian structures and to embrace the new. But the contemporary world lacks structure and beliefs, so applying liberal solvent, appropriate to a rigid world already gone, exacerbated existing trends toward disintegration.

Institutions, emptied of their former content, structures and beliefs, are now being filled up by the new wave of political correctness. Destabilizing campaigns are waged to disorient us from our normal values; objectivity is denied; controversial notions are sprung on us to destabilize us further; role-reversal and victim status moves are played; and language games using convoluted terms are employed. As a result, a frenetic atmosphere is induced. This destabilizing activity is often carried out by an alliance of media commentators, public opinion-formers and academics, which creates a false national conversation. Carrying out the behests of the government-quango nexus, it acts as a diversionary rather than a transmission mechanism in the middle realm. As a result the state cannot hear its own citizens. This can be seen in the frenzied, overheated atmosphere created in the Garner, Hindmarsh, Easton, Paxton, Demidenko and Hanson controversies.

The Family Conversation

The national conversation is increasingly out of touch with the family conversation, which is about quite different things—worries about job security, family stability, parents worried about passing on their values, about the younger generation finding its way into the wider community. This can be seen in the frenzied, overheated atmosphere created in the Garner, Hindmarsh, Easton, Paxton, Demidenko and Hanson controversies. There is a large private breakdown in many families today—depression, schizophrenia, health problems, unfocused anxieties, low-level worry, personal fragility, and so on. If natural outlets into the wider community are not available, individuals are forced back on themselves, and the family becomes a beleaguered haven in a heartless world. It can't work in isolation. There is a type of young male who never

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finds a pathway into society, much less employment, and has no structure in his life. Those in our society who successfully move into employment and society are derided by the use of designations like 'yuppie' and 'young fogy'. There is no word or role-model which advocates a beneficial moving into society.

**SOLUTIONS**

When tragedy occurs, families today have to deal with large, impersonal quangos, which are less likely to solve their problems than privately-based, self-help welfare groups, which are more effective and efficient. With high social capital, there is less likely to be tragedy, and when it occurs, it can be better handled. Below the level of tragedy, we need release from constantly living inside our own minds, we need release into communal activity where we are part of a larger venture, and the boundaries of our egos begin to dissolve. We can't exist by ourselves. It's a healthy relationship to community organizations which keeps us going.

In the social sphere, devolution means renovating voluntary intermediate institutions, and working through them. This is a thing we do ourselves, not governments, and it gives meaning back to our lives. Governments shouldn't tell us how to live. Once transmission of community and family values has broken down, it may not naturally heal itself. A community may have to be consciously set up to replace the natural one that has partly gone—this is the communitarian ideal, and governments, paradoxically, may have to help in this.

It's no secret that Australia's mining companies, both big and small, are increasingly investing overseas. Figure 1 shows that while investing in Australia continues to rise, so does overseas spending—which now accounts for 40 per cent of the total.

There are many reasons for this; Figure 2 shows one of them. Asked to assess the risks arising from land claims, miners rated Australia as one of the riskiest in a wide range of prospective countries.

The figures come from an excellent survey conducted by Mining Monthly magazine, and published in their February issue—required reading for policymakers and anyone concerned with the investment climate of Australia.

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**Patrick Morgan is a Senior Lecturer in English at the Gippsland Campus, Monash University.**

The foregoing is a much abbreviated version of a paper given at an IPA Seminar on 8 August 1996, and which we hope to publish in full later this year.
Figure 3 shows real effective tax rates on savings and investment income for individual investors on average personal marginal tax rates. Compared with our Asian neighbours, we are a high-tax country—no surprise, perhaps—but we perform badly even by comparison with our OECD colleagues. A figure worth bearing in mind when we ponder our national savings problem.

If any single picture begins to explain the phenomenon of John Howard's 'battlers', Figure 4 is it. Compiled by Anne Harding, of the National Centre for Social and Economic Modelling, it shows the decline in the fortunes of Australia's middle classes. Both in dollar and percentage terms, the disposable incomes of roughly the middle half of Australia's population fell over the Hawke–Keating years.

From the outraged protests which appear in the media from time to time, you might think that Australia's top corporate executives were grossly overpaid. Not so, according to Figure 5 which is based on a chart from The Economist magazine (16 November, 1996). Levels of executive pay in Australia fall very much in the middle of the ranking of comparable countries.
The ‘R’ Files

ALAN MORAN

Electrifying
Changes On-Line

The changes under way in the Australian electricity industry are surpassed only by those being seen in telecommunications. The integrated State-owned electricity suppliers such as Victoria’s SEC—known to its workers as Slow, Easy and Comfortable—have been or are being dismantled.

In the last three or four years, static monopoly structures, owned by governments but ruled to a large degree by trade unions, have been transforming themselves into hubs of enterprise. Marketing and finance staff now share the management with engineers, who traditionally have dominated managerial functions. Costs and prices are falling. Service is improving. Governments around the world are cashing in on the advantages of lower cost that small power units enjoy. At the same time, there was an increasing awareness that the advantage in economies of scale that large power plants than when relying on only two firms, which were able to raise prices safe in the knowledge that they would not be squeezed out of the market.

Within Australia, many have contributed to devising the market system that is now in its infancy. Pioneering work on creating electricity markets was undertaken 15 years ago at Monash University’s Centre for Policy Studies; a major stimulus was provided by two Industry Commission reports on the matter in 1988 and 1991; a joint Tasman Institute/IPA study for Project Victoria fleshed out a specific approach for Victoria in 1991; whilst Treasurer Stockdale in Opposition had developed his own outline of the reform process.

The finishing touches were developed by the consultants under Peter Troughton within the Victorian Electricity Reform Unit. Though the Hilmer report on competition policy was released in 1993, the reform process in Victoria was already under way by then, and the seeds of a national reform process had been planted.

THE VICTORIAN REFORMS AND PRIVATISATIONS

The Victorian electricity supply industry was the ideal candidate for the first reform process. The generation part of the business had become severely degraded: political interference, poor management and acquiescence in a union ‘workfare’ approach had severely tarnished the jewel built by Sir John Monash and his successors. Two salient indicators demonstrate this. From the time of serious reform—which actually started under the Kimer Government—to 1995, the number employed in generation was reduced from 9,000 to a little over 2,000 (plus about 1,000 equivalent contracted-out employees). And during that period, the system actually improved; in terms of the availability of stations to run—a global measure of electricity performance—there was an increase from a dismal 78 per cent to over 90 per cent.

Even so, during its final year under government ownership, the industry returned an effective dividend to the government of only $400 million. This was on assets which, in the light of subsequent sales proceeds, have a market worth of well in excess of $20 billion.

The reform process divided the industry into five generation businesses, five distribution/retail businesses, a transmission business and a system operating business. All five distribution/retail businesses have been sold; one generator has also been sold and another is undergoing the sale process. All of the distributors were sold to firms that are fully or partly American-owned. The sum realised from the sale of these businesses, $10.4 billion, was several billion dollars higher than the Government and its advisers had expected. The generator sale was to one of the UK generation companies for $2.4 billion.

The high prices paid for the distribution businesses, where perhaps 90 per cent of revenue is derived from charges on the monopoly electricity lines, is not due to the purchasers seeing an opportunity to milk the assets by allowing them to be run down. The sale conditions require the businesses to maintain the pre-existing service levels. Clearly, the purchasers saw value in the stability of earnings from electricity, the possibility of implementing further cost reductions, and in using the Victorian businesses

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as a base to win business elsewhere in Australia. In addition, the premium prices include a factor for 'captive customers', whose prices, though set to reduce by between 9 and 22 per cent in real terms, are clearly in excess of what is achievable in a fully contestable market.

**PERFORMANCE OF VICTORIAN DISTRIBUTION**

The strong light of public scrutiny was mainly focused on the distribution part of the industry. This was because new companies with a direct customer interface were established and privatised.

At the present time about 40 per cent of the electricity sales are open to competitive retailers. The distribution businesses charge a regulated price for transport of power, but have no lien on the customers within their territories, a great many of whom have switched suppliers. Price competition has been fierce, except for the very largest customers who had previously negotiated abnormally low prices. For the rest, prices have fallen by an amount which anecdotal evidence puts at between 5-10 per cent.

The competition has also included about 10 new firms (mainly interstate retailers), who can readily obtain retail licences in a process overseen by the independent Office of the Regulator General (ORG). Naturally, the Victorian businesses are irked at the slow progress of other States in opening up their own markets.

Victorian distribution activities, at least those of the SEC (about 15 per cent of distribution was controlled by local governments in Melbourne), had been rather less inefficient than those of most other Australian distribution businesses. Customer-to-staff ratios, for example, at 360 in 1993-94 were higher than in all States other than Western Australia and had shown a one-third improvement since 1989-90. By 1992-93, distribution costs were equivalent to those in South-East Queensland, for long the most efficient Australian distribution business. Even so, overseas comparisons illustrated that further economies were possible.

During 1995, when for most of the period most of the industry was privatised, all the distribution businesses continued to implement cost reduction exercises. These have included further employee downsizing, of about 12 per cent.

There have been some highly publicised developments that are claimed to demonstrate the system's demise (the latest of which was a blackout, caused by a traffic accident, which forced the abandonment of the most sacred Victorian pastime). These have included claims of neglect of poles causing outages, excessive zeal in disconnecting customers who don't pay their bills, neglect of community service obligations and, above all, power outages.

These claims have been carefully analysed by the ORG and found to be groundless. For the second half of 1995 ORG reported that 'overall disconnection levels for non-payment fell; guaranteed service levels were maintained; and delivery of community service obligations such as concessions and crisis assistance has been maintained and in some areas there is an indication of improved access.'

In the case of unplanned outages, the ORG stressed the difficulty of assembling comparable measurements due to ad hoc factors. Data were not available for one part of one distribution business territory which had been inherited from municipal electricity undertakings. Subject to this, the ORG found 'no evidence of an increasing trend in the number of unplanned outages since the disaggregation of the SEC.'

The turmoil in Australian electricity is likely to continue. Technology advances will allow much better measuring of usage down to the household level and allow a plethora of tariffs geared to customer preferences for the quality of supply, measures like opting to be disconnected when the spot price is high and receiving a discount in return. Such measures will allow a much better matching of supply with demand, and reduce the need for expensive reserve generation. They will also make it difficult to compare prices in the future, since customers will have options in price/quality trade-offs.

In addition, electricity distribution and transmission, with its dedicated wires and metering systems, is likely to play a role in telecommunications in the future. Privatisation is essential to this process since novel departures from the traditional business, with the risks they imply, make it unlikely that State-owned businesses will be allowed to experiment and seek out entrepreneurial gains.

Dr Alan Moran is Director of the Deregulation Unit within the IPA in Melbourne.
Perceptions of Sustainable Development

RONONCMENT from government sources in most countries characteristically contain two types of exhortation that sit uneasily together. On the one hand, we are urged to pursue economic growth to provide both more employment and the wealth required for social objectives. On the other hand, almost as a form of penance, we are counselled to mend our profligate ways in order to ensure ecological 'sustainability'. Indeed, the use of the word 'sustainable' has become hackneyed, and with it the appealing ideal of sustainable development.

Throughout modern history, people have wanted to believe that a better society and organisation can exist and be created. Betterment now means not only that the socio-economic system could be more equitable, but also that it should be able to resolve the problem of an increasingly wealthy society and a deteriorating environment. Quality of life is what we are all concerned about.

Yet the idea that 'all is for the best in the best of possible worlds' begs the question of what is possible. As an imprecise ambition, sustainable development provides fertile ground for idealists and well-meaning evangelists who seek to impose or encourage ethical changes in the way of the world.

It is now well known that sustainable development was coined in the 1987 Brundtland Report, Our Common Future, and defined as 'development that meets the needs of the present without compromising the ability of future generations to meet their own needs'. But the possible, both mutual inconsistency of the two parts and defined as 'development that meets the needs of the present without compromising the ability of future generations to meet their own needs'. But the possible, both mutual inconsistency of the two parts are endemic to much of modern environmentalism. Cant, because words and arguments are often used for effect rather than meaning; and self-delusion, because for every problem it is assumed that a solution exists—and is obvious to those with acumen.

Over the past two decades, emerging awareness of the sustainable development problem has placed it high on the political agenda in many countries. This has had the effect of giving the environment a relatively higher priority than before in the allocation of government funding. Unfortunately it has also meant that truth, rather than according with fact or rational analysis of the situation, has become what people can be persuaded to believe by constant repetition from various environmental pressure groups. For many, environmental inviolability has become the new religion, where faith is more powerful than fact.

A major plank in the platforms of those inclined to this view is the Precautionary Principle as a means to help stop the rot of environmental degradation. This principle advocates that, when faced with any agricultural, industrial, mining or tourist development proposal, regulators should anticipate environmental harm and act to ensure that such harm doesn't occur. Thus the onus of proof is shifted on to developers who, so the principle demands, must show that their projects will not cause any harm to the environment before they are allowed to proceed.

Innocuous enough perhaps. Indeed, it looks very much like a moral imperative: no rational person could advocate deliberate environmental degradation, and ideally we should leave the world a better place for human habitation than when we entered it.

But things are not that simple. In a highly interactive society there are competing moral imperatives, or at least desired objectives—including issues like the rights to life, food and comfort, and international and intergenerational equity. While some of these suffer from the perspective of moral values fashioned in a past era, when scope for expansion was conceived as infinite, the conflicts are no less real. Yet in achieving our objectives, boldness has paradoxically been replaced by timidity.

In his thought-provoking monograph Don't Panic, Panic: The use and abuse of science to create fear, the late John Farrands begins: 'In our time we have created the most unnecessarily fearful generation of humankind ever to have populated the earth'. He didn't cite the Precautionary Principle; yet he might have done because it appears to reflect a fear for the future and a timorous view of the relationship between humanity and the environment. It implies that almost any developmental activity affecting the environment has a latent tendency to do more harm than good, and that societal benefit can no longer justify further environmental alteration.

The principle is often associated with the maxim 'lack of scientific certainty should not be used as a reason for taking no action'; yet this is a redundant statement given the rationally sceptical perspective that certainty of knowledge is unattainable. Perhaps somewhat ironically, it was the nineteenth-century anarchist Michael Bakunin who expressed concern about 'the tyranny of the minority over the majority in the name of the many and the supreme wisdom of the few'; yet this is the direction in which the more volatile environmentalists might take us.

In 1992, the monograph Beyond the Limits was published. This is the 20-year sequel to the original Limits to Growth, sponsored by The Club of Rome. It is a document likely to induce mixed feelings in the reader. None of us could do other than laud the moral principles upon which...
their recipe for meeting the needs of the poor, for equity and for sustainable development is based. They emphasise the need for compassionate policies effectively directed at transferring wealth from ‘rich’ to ‘poor’ nations, and a comprehensive revision of policies and practices that perpetuate growth in material consumption and population. In fact, social scientists appear to have annexed the environmental component of sustainable development and incorporated it into a broad moral crusade.

But the likelihood of such an ethical transformation in the way of the world is not great. The balance between altruism and selfishness in the statistics of human behaviour, as distinct from individual compassion and personal character, is not likely to change. One does not have to be a misanthrope to recognise that average human behaviour on a one-to-one basis accords with a different standard of morality than it does on a tribe-to-tribe or a nation-to-nation basis. Clearly it is relevant to ask whether a truly equitable readjustment can be achieved without a vast reduction in the quality of life for many and without the emergence of internecine conflict of the type which is now afflicting the republics of the old socialist union and many other nations.

The advocacy of sustainable development is occurring at a time of more rapid escalation in human numbers than ever before, when it is at least being appreciated that there is a limit to many available resources, and when a decline in disposable wealth in most developed countries has been obvious for a decade or more.

Realistic attempts to address national aspects of the problem were considered at the Australian Academy of Science Symposium 'Population 2040: Australia's Choice', held in April 1994. There, particular concern was expressed about the possible doubling or tripling of the size of Melbourne and Sydney, the need to service them, and their impact on surrounding regions. The full complexity was considered in Australia's population 'carrying capacity', the 1994 Report of the House of Representatives Standing Committee for Long Term Strategies. The political difficulties are indicated by what Doug Cocks, in his book, People Policy calls 'the Committee's somewhat confused report which manages to avoid making any recommendations'.

Cocks himself argues that a much better case exists for a policy aimed at stabilising Australia's population in a generation or so than for the current tacit policy of doubling the size within a few generations. Urban quality of life emerges from his analysis as the single most important issue in the population debate—although I suspect that this is not as important as the consequences of such a policy on employment and wealth: commerce and industry on which these depend rely upon the demands of an expanding society.

However desirable ecologically they may be, the prospects of any significant medium-term change in population trends are not large. Nationally this is illustrated by a recent call for action by the ALP to develop a population policy for Australia; but at the same time, the adverse social consequences of containing population are given more weight than the adverse environmental consequences of not doing so. Internationally, it would be naive to believe that carrying capacity is high on the priority list of the many underprivileged and warring factions already actively engaged in survival activities that degrade the environment in one way or another. For such groups, maintaining current existence is more urgent than any thoughts of the viability of future generations.

Realism has been defined as the application of thinking to wishing. When planning for the future it is clearly necessary for these plans to be based on realism—not wishful thinking. In any case, it would be more honest to admit that until world population and associated expectations stabilise, environmental damage control is a more realistic aim than ecologically sustainable development (ESD). Indeed, on the national scene, if Australia’s population is not to be stabilised in the medium term, environmental damage control, together with improved efficiency and conservation of resources, is the main thrust of the principles set out in 1992 by the nine government-sponsored ESD working groups.

The internal contradiction in the term sustainable development is so rarely mentioned that one wonders if even to point to it might be heresy. Sometimes the possibility is used as a prelude to a moralistic but nebulous argument in favour of limiting or even abandoning further development in order to achieve a sustainable lifestyle or to justify a doctrinaire social objective. A more realistic approach would begin by posing the question: Is it wise prematurely to compromise national development and quality of life, won by means of diligent mental and physical effort, in favour of what could be a vain and unrealistic attempt to achieve the unachievable? As a society, we should focus on environmental damage control and develop a triage policy: to assess what can be done, easily; what might be done, affordably; and what is unrealistic and would be wasteful to attempt.

Requirements for the full sustainable development ambition have been massively underestimated, yet several useful actions appear profitable:

- seek to understand the complex processes at work shaping our society, anticipate broad aspects of the future as best as we are able, and formulate a policy which combines adaptation and damage control;
- refuse to be stampeded by emotional concerns and media hyperbole to chase non-existent solutions that might compromise our own development and quality of life to no good effect;
- promote the development of a sound economy to provide the source of wealth required to minimise environmental degradation;
- take steps to assess the carrying capacity of Australia and to develop an appropriate immigration policy—and in doing this we should not allow ostentatious moralising to persuade us to adopt an agenda devised for other purposes;
- and above all, change from wishful thinking to realism when planning for the future.

The term (ecologically) sustainable development is not only an oxymoron, its current use is hypocritical because it implies what it cannot mean. It hints at a solution that doesn’t exist and is close to becoming the modern version of 'the opium of the people', an anodyne to assuage recognition of the inevitable consequences of humanity. Even if interpreted to mean a stabilised socio-economic-environmental world system, all evidence suggests that this is impossible for at least 150 years, if then. Nevertheless it has some value as a concept advocating planned damage control and adaptation in a world changing because of our own existence.

Dr Brian Tucker is a Senior Fellow of the IPA and Director of its Environment Unit.
We are all now supposed to be travellers along the 'Information Super Highway'. As a frequent user of the Internet myself, I can tell you that the Super Highway is rather more like a pot-hole strewn road. Or, rather, several million of them, intersecting randomly, with only a few uncertain signposts to guide the way.

But at the end of many of those roads are treasure-chests of information, especially for people who look to free enterprise to solve problems rather than to the Nanny State. This is the first in a series of columns devoted to helping IPA Review readers find some of those treasures. In future columns, I'll point to text-based information sources: Usenet news groups and mailing lists. In this issue, let us stick to what many think is the Internet: the World Wide Web.

So, what did she say? A trip to the library to wade through Hansard did not seem attractive. So I searched the Internet. What did I find, but Australian Hansard on line! Look at:

http://hansard.aph.gov.au

From this address you can click your way to both Senate and House of Representatives Hansard. Not only are the weighty utterances of all parliamentary sittings recorded, but most of the various Committee sessions as well. A means is provided for searching the data to find the nuggets you seek. It took a little working out, but in only a few minutes I had all of Pauline Hanson's parliamentary speeches loaded onto my PC.

So what did she say? Go and have a look yourself. Hint: search for 'Hanson' using the section marked 'Speaker in the House of Representatives'.

TOWN HALL

This is not so much a treasure at the end of a rutted road, but a node and a meeting place. The treasures themselves are near.

Town Hall is a gathering place for a number of conservative US organisations. It was originally set up by William F. Buckley Jr's National Review and the prestigious Heritage Foundation, but now has many member organisations. It is intended to provide a place for conservative public policy organisations to be easily accessible to the public. To quote from its introduction:

The organisations that have chosen to become citizens of Town Hall do not agree on every issue, yet that is why
an analysis of the significant drop in crime rates—8 per cent in the last year—in California, following 1994 legislation requiring life sentences for persons convicted of three felonies.

The National Review link takes the Internet surfer to that magazine's home page. This does not provide the full text of the magazine, but usually several of the regular columns and one or two feature articles.

Likewise, the Social Critic offers two of the five feature articles on line. One of the viewable documents is delightfully titled 'The Ghouls of Grammatical Egalitarianism' while one that can't be viewed actually concerns our end of the world: 'Deregulation of the New Zealand Labor Market: Things Done and Left Undone' by Charles Baird.

Town Hall directly offers several items beyond those provided by the member organisations. For example, there is on-line access to the columns—on the same day they are published—of fifteen well-known conservative writers, including Thomas Sowell, William Buckley, Robert Novak and Dan Quayle. I can't comment on the quality of these—although their reputations would suggest that they are very worthwhile—as access costs $US25 for six months, and I simply do not have time to keep up with the high quality free material on the Internet!

If you prefer to communicate two ways rather than just passively read, there are also two bulletin boards and a 'chat' feature. 'Chats' are several users engaging in direct conversation with each other, but via keyboard rather than mouth. Netscape Navigator 3.0 is needed to use this feature in Town Hall.

Finally, Town Hall features a graphical map and a search facility to help you find what you are after.

'The address of Town Hall is:

http://www.heritage.org/townhall

CRIME, DETERRENCE, AND RIGHT-TO-CARRY CONCEALED HANDGUNS

And now a fully self-contained treasure.

You may have read of a recent US study that challenges some of the conventional wisdoms relating to firearms controls. The study, by two academics at the University of Chicago—John R. Lott of the School of Law and David B Mustard of the Department of Economics—suggests that those US States that have passed laws requiring local jurisdictions to issue a permit to carry a concealed firearm to all non-criminals have seen significantly reduced crime rates.

'Crime, Deterrence, and Right-to-Carry Concealed Handguns' will be available for perusal in the United States Journal of Legal Studies in January 1997. But it's available—at no cost—from the authors at:

http://law.lib.uchicago.edu/faculty/lott/guns.html

It is provided in several different word processor formats.

THE CATO INSTITUTE

While Town Hall's focus is essentially conservative, the Cato Institute has a sharper free-enterprise, small-government edge. One example of this is the Institute's boast that 'In order to maintain an independent posture, the Cato Institute accepts no government funding'.

The Institute gives congressional testimony, hosts addresses by guest speakers, commissions and publishes studies and issues a journal. In short, it has many similarities with the Institute of Public Affairs, both in manner of operation and courage to proceed against the stream.

The full text of the latest issue of The Cato Journal is available on line. This includes such articles as 'Welfare and the Culture of Poverty' by William A Niskanen, 'Trade and Human Rights: The Case of China' by James A. Dorn, and 'Bureaucratic Corruption in Africa: The Futility of Cleanups' by John Mukum Mbaku.

Significant speeches include one on the way Chile's state pension system was privatised, made by Jose Pinera, the then Minister for Labour, and by Nathaniel Branden on 'The Foundations of a Free Society'. These can be downloaded or read as text. But interestingly, the Institute provides RealAudio recordings of them so that one can listen to the speeches as given. Another speech in this category was given by John Lott, the co-author of the firearms report, along with rejoinders by some critics.

The Cato Institute may be found at: http://www.cato.org

A SHORTCUT

I shall make it a practice to place links on my own personal web page to all the addresses mentioned in these columns. Go to:


and from there you can reach any of the above with a simple click of the mouse. I may be contacted on scdawson@ozemail.com.au and would welcome advice from readers on any other treasures they have found.
The effects of imposing a minimum wage are one of the most emotive and yet least understood issues in economic and labour market debates. Given the importance of this issue, particularly in the context of the current ACTU 'Living Wage' Case, it is timely to provide a reasoned analysis of the impacts of minimum wages.

The clue to understanding the minimum wage debate is the nature of the labour market. The concept of the labour market is an abstract one, but is nevertheless useful for analysing issues such as the overall level of employment and unemployment.

There is considerable empirical research on the labour market in Australia and the effect on employment of rises in average wages. This research indicates that a 10 per cent increase in average wages reduces employment by about 8 percent. Thus, moderation in average wages increases employment; so, with the usual caveat that all other things are equal, unemployment will fall.

It is tempting to use this evidence to suggest that imposing a minimum wage above the market rate will reduce employment and increase unemployment. Since most workers, however, would in any case obtain a wage higher than the minimum, the effect of imposing a minimum wage increases the wages only of those who would otherwise receive the lowest wages.

The effect on the average wage is small and, thus, the impact on employment and unemployment is also small. This theoretical argument is supported by empirical evidence which shows that the impacts of minimum wages on total employment and unemployment are small.

To get to grips with the effects of a minimum wage it is necessary to dig deeper into the operations of the labour market. In reality, there is no such thing as a single labour market but rather there are very many labour markets each with their own supply and demand. For instance, employment in a hospital will be determined by markets for specialists, doctors, nurses, clerks, cleaners, etc., each with different amounts of required skills and characteristics resulting in different wages. An important characteristic of the multitude of labour markets is substitutability. Although it is common, particularly in the professions, to think of occupations being rigidly defined, in practice there is a great deal of substitutability between workers. For instance, at various times, relatively junior doctors can perform duties of specialists, registered nurses often perform duties which would well be the domain of doctors. TAFE-trained enrolled nurses can be substituted for university-trained registered nurses and, increasingly (particularly in aged care), relatively unqualified 'carers' perform duties which were once the province of nurses.

Most empirical studies of individual labour markets point to the high degree of substitutability, with respect to demand, between types of labour. There is also strong evidence that, given the degree of substitutability, the demand for labour in these more narrowly defined labour markets is highly responsive to relative wages. Also, generally, the lower-skilled the worker, then the more responsive is demand to relative wages. In addition to demand being highly responsive to relative wages, research shows that labour supply is also responsive to relative wages.

Given the above framework it is relatively easy to understand the impact of minimum wages on employment and unemployment. The imposition of minimum wages affects only those in low-skilled, low-paid jobs. These individuals are, generally, very poor substitutes for the majority of the workforce and, therefore, minimum wages have little impact on the wages and employment of most workers. But those workers earning just above the minimum wage are highly substitutable for those who would otherwise earn below the minimum. This is because although there is still a skill differential between them, the jobs are still, relatively, unskilled.

The impact of the imposition of a minimum wage is for employers no longer to employ those who would have earned below the minimum wage and, therefore, unemployment among this group rises. These workers, however, are substituted by more workers earning just above the minimum wage. Thus, the net effect on employment and unemployment is small.

There is a small fall in total employment, since average labour costs are higher. But there is a large fall in employment of workers who could otherwise have earned below the minimum wage.

In summary, the impact of the minimum wage on total employment and unemployment is minimal; but the impact on low-skilled, low-paid workers is very great.

Interestingly, this logic also applies to the analysis of wage subsidies. Whereas minimum wages increase the cost of employing low-skilled workers, wage subsidies reduce the cost of employing them. Wage subsidies should therefore increase employment of low-skilled workers, such as the long-term unemployed—but at the expense of other workers. Employment effects operate through substitution of one group of workers for another, with total employment largely unaffected.

From the viewpoint of an economist, it is somewhat amusing to observe the seemingly opposite views of those on the right and left of politics debating these issues. The right dismiss wage subsidies as having no effects, but minimum wages having dramatic effects on employment and unemployment; whereas the left adopt the opposite view. Yet clearly, both views are mistaken. The impacts on total employment are small but very significant for workers directly affected by the policy.

So what are the policy implications of all this? The overview given here suggests very clearly that rather than seeking to help low-income workers by adopting minimum wages, it is better to help them through the social security system or some form of negative income tax. The cost to the government is also likely to be less than the unemployment benefits which would need to be paid to them if they cannot find employment at the minimum wage.

Professor Philip Lewis is a research associate of the Centre for Labour Market Research, Murdoch University in Perth.
Hindmarsh Heresies
Ron Brunton reviews

Women's Business
by Chris Kenny
Duffy & Snellgrove, $19.95

An anecdote in Chris Kenny’s book epitomises the blather that passes for spirituality amongst those who took the Hindmarsh Island ‘women’s business’ seriously. Sarah Milera, an important Ngarrindjeri figure in the figure against the bridge, was sitting with a white activist on a riverbank. Picking up a stone, she said, ‘I didn’t take this stone from the earth. The earth gave it to me. When I’m finished, I don’t drop it. The earth accepts it back.’

Such sentiments have little to do with any traditional Aboriginal ideas. Rather, they represent the triumph of what might be called the ‘new assimilationism’, the willingness of some Aboriginal people to misrepresent their culture in conformity with white Australian fantasies about indigenous cultures. As Kenny shows, ‘women’s business’ was a similar response to white desires—in this case the need of an unlikely coalition of wealthy property owners, greens and unionists to produce a decisive reason for preventing the construction of the Hindmarsh Island Bridge. Up until September 1993, there had been no Aboriginal objections to the bridge, even though Ngarrindjeri leaders were fully aware of the proposal, and had had previous consultations with the developers.

Chris Kenny was himself a major player in the Hindmarsh Island affair. He is the Channel 10 newsmen to whom one of the leading Ngarrindjeri anti-bridge campaigners, Doug Milera (Sarah’s husband), confessed his insider’s knowledge of the fabrication of ‘women’s business’, only to recant a few weeks later after being subjected to enormous pressure. A whole episode of the ABC’s ‘Media Watch’ was devoted to an attack on Kenny, unjustly accusing him of having created the fabrication story by thoroughly unethical means. He also faced strong criticism from other sections of the ‘quality media’, whose investigative skills stopped well short of any attempts to discover the real reasons behind Milera’s retraction.

Kenny was completely vindicated by the Hindmarsh Island Bridge Royal Commission. But many of his colleagues seem not to have forgiven him. Despite its obvious newsworthiness, Ian McLachlan’s launch of the book went virtually unreported by the ‘quality’ media, and the speaking tour of southeastern capitals that Kenny’s publisher had organised had to be cancelled. The launch was at Parliament House on 6 November, a few hours after debate had begun on the Hindmarsh Island Bill in the House of Representatives. Dorothy Wilson, Dulcie Wilson and Jenny Grace, three of the fourteen Ngarrindjeri women whose testimony played such a crucial role in exposing the fraud, spoke at the launch. Dorothy Wilson almost broke down in tears as she recalled how her decision to speak out had destroyed many of the close friendships she had enjoyed with other Ngarrindjeri.

Frank Devine has suggested an alternative reason for the media silence: the fear that any publicity for the book might provide aid and comfort to the likes of Pauline Hanson. If Devine is correct, it would point to a simplistic and denigrating attitude towards Aborigines held by much of the media, one in which Aborigines have to be assigned to a limiting handful of stereotypes in the supposed interests of reconciliation. In fact, Kenny makes it clear that the real heroes of the story were Aboriginal women; the dissidents who stood to gain nothing from the construction of the bridge, and who acted out of a deep sense of integrity. Prominent Aborigines such as Mick Dodson and Marcia Langton could have made a major contribution toward allaying public suspicions about heritage and land claims by celebrating the dissidents as an example of Aboriginal commitment to the truthful representation of the past. Instead, they backed the fabricators.

Women’s Business is an informative and most readable account of one of the more scandalous episodes in Australia’s recent history. Kenny has supplemented the evidence presented to the Royal Commission with interviews with many of the key people—although it is clear that he was unable to speak with any of the proponent women. This was one of the costs he had to bear for his own role in helping to expose the fraud. Partisanship on the side of truth is no vice, but the book is fair. It certainly deserves a very wide audience, and I strongly recommend it.

Are We Only Half the Men We Used to Be?
Roger Bate reviews
Our Stolen Future
by Theo Colborn, John Myers and Diane Dumanoski

As the rust settles on the Brent Spar oil platform and the memory of Greenpeace’s manipulation of the media fades, environmental alarmists are already back in force. Our Stolen Future
by Theo Colborn, John Myers and Diane Dumanoski was released in Britain last year, after the 25,000-copy first run in the U.S. sold out within a month. It has already been compared with Rachel Carson's famous Silent Spring, which warned about the effects of the pesticide DDT on wildlife. In fact, the U.S. National Academy of Sciences has already convened a panel on the issue. The U.S. National Academy of Sciences has already convened a panel on the issue to study the problems posed by the synthetic hormone disruptors in the environment. The chemicals mimic natural oestrogen (female) hormones and could disrupt human development at critical periods, particularly in utero.

Like many environmental activists, the book's authors invoke the precautionary principle. They conclude that these chemicals should be assumed guilty until proven innocent: since sperm counts are falling, we should ban the use of hormone disruptors. But such a move would be rash considering that the study providing the principal evidence for declining sperm counts is seriously flawed. Author Niels Skakkeback did a meta-analysis of 61 studies conducted between 1938 and 1990. But some experts say that Mr Skakkeback's data from the early years are minimal and haphazardly collected. Evidently, men with low sperm counts were excluded from the early data sets. According to Richard Sherins of the U.S. Genetics and IVF Institute, re-analysis of the data from the best 48 of those studies actually reveals a statistically-significant increase in sperm concentrations over the past two decades.

The British Medical Research Council's reproductive biology unit also warned recently that male potency was declining so fast that if the trend continued, most men would be infertile by the middle of the next century. But a recent study by Harry Frisch of the Columbia Medical Center in New York shows an increase in sperm counts over the past 25 years. Another study, by C. Alvin Paulsen, of the University of Washington found no decline in sperm counts or semen quality over the same period.

The reason for such disagreement is that analytical techniques and data measurement are so variable. Sperm counts vary with factors like age and duration of abstinence before the sample is provided. It is difficult to ensure identical procedures within experiments, an art form to compare one study with another. It is also remarkable how sperm counts seem to vary by geographical location: according to Mr Frisch, New Yorkers are nearly twice as potent as men from Los Angeles.

The authors' strongest specific example of a damaging synthetic disruptor is the case of diethylstilboestrol (DES). Mothers were directly fed high doses of it in hopes of preventing miscarriages. Reproductive effects were supposedly significant, particularly in male offspring. This incident is the primary model for the book's conclusion: 'We are certain of the following: The effects of DES ... are oestrogenic. Both sons and daughters exposed in utero experience ... reduced fertility.'

But the definitive study on DES, which appeared in the New England Journal of Medicine, clearly states that men exposed to DES '...were nonetheless as fertile as other men. Diethylstilboestrol-exposed men had no impairment of sexual function, as indicated, for example, by the frequency of intercourse or reported episodes of decreased libido. Conclusions: High doses of DES did not lead to impairment of fertility or sexual function in adult men who had been exposed to the drug in utero.'

A paper by Jonathan Tolman, released by the European Science and Environment Forum, puts the whole hormone disruptor issue into perspective. Apparently, nature provides a panoply of hormone disruptors. Mr Tolman lists 43 plants and foods in the human diet that have been shown to be 'oestrogenically active'. The list includes carrots, coffee, garlic, lime, potatoes and wheat. Hardly a rare collection.

After drawing on many medical and veterinarian studies, Mr Tolman concludes that '...the estimated oestrogenic effects from (naturally occurring oestrogens in food) are 40 million times greater than those from synthetic chemicals, but it is questionable that either is impacting on human health.'

The authors of Our Stolen Future believe that an across-the-board ban is the only fail-safe strategy for ridding the world of hazards still unknown. However, as the journal Nature states in its article 'Masculinity at Risk', '...this will not be the first occasion when a presumed link between an environmental contaminant and a risk to health has melted away on close investigation'. Based on such thin evidence, it concludes, it would be self-defeating to push for an outright ban of an oestrogen-disrupting pesticide like DDT when we know for sure that many people are dying from mosquito-induced malaria.

Many science researchers will nevertheless be delighted by Our Stolen Future. Britain's Medical Research Council recently published a report on male fertility which also conveniently ignored the findings of the New England Journal of Medicine. As James Le Fanu, the Daily Telegraph's health columnist, remarked recently: 'The MRC did not include this information—presumably because to do so would make it more difficult to apply for the grants they were seeking to do further research on the matter'.

The fact is that Our Stolen Future is simply unconvincing because it ignores contradictory scientific evidence and pays no attention to the role of natural hormone disruptors in the environment.
Recent IPA Publications

**Restoring the Balance: Tax Reform for the Australian Federation** by Jeff Petchey, Tony Rutherford and Mike Nahin

Accepting the widely-held view that Australia's taxation system is in utter disrepair, the authors argue that tax reform cannot be divorced from the reform of Federal-State fiscal relations. On one hand, the Commonwealth's dominance over most tax bases creates a tax cartel; on the other, the States are forced to rely on unsatisfactory and inefficient bases for their tax needs. This book—the first in a new and important series—gives compelling reasons for allowing the States back into income or consumption taxes, and demonstrates the benefits this would bring.

Current Issues (Tax Reform Project), September 1996, $16.95.

**Black Suffering, White Guilt?: Aboriginal Disadvantage and the Royal Commission into Deaths in Custody** by Ron Brunton

A critical examination of the currently fashionable explanations of Aboriginal disadvantage that were given legitimacy by the Royal Commission into Aboriginal Deaths in Custody. It is particularly critical of explanations that attribute Aboriginal disadvantage to the 'institutional racism' of Australian society. It argues that the ideas that underpin current approaches to Aboriginal policies are counterproductive.

Current Issues (first published February 1993, now re-issued in electronic form only, Windows-based), $15.00.

**States' Rights and Human Rights** by Charles Richardson

Examines the recent history of Australian human rights legislation: in particular, the tension arising from the standard 'centralist' and 'States' Rights' positions, with solutions based on US experience.

Current Issues (Federalism Project), November 1995, $6.95.
enterprise ("entəprɑːz) n. 1. a project of undertaking, esp. one that requires boldness of effort. 2. participation in such projects. 3. readiness to embark on new ventures; boldness and energy. 4. a company or firm.