In around 1950, *Look Magazine* published the ‘Road to Serfdom in Cartoons’—a version of the Hayek classic drawn for a popular audience. (The cartoon is available on the web at [http://www.mises.org/TRTS.htm](http://www.mises.org/TRTS.htm).) In the most accessible way possible, the anonymous artist sketches out how national planning instituted during wartime can be embraced after the conflict concludes, and how this necessarily leads to a loss of freedom.

Few would still advocate this approach—grand, national-scale economic planning has been disgraced since the Cold War. But, as Alan Moran argues in the cover story, ‘Planning restraints: A plague on wealth and the democratic process’, governments have nonetheless embraced planning in different areas, to the disadvantage of their citizens.

Instead of allowing individuals to use their land as they see fit, urban planners subvert basic property rights for a host of aims—including environmental, transportation, ideals of equal access and, as Louise Staley argues, often dubious notions of heritage value.

The April *IPA Review*, like the others before it, covers a huge range of issues. Alec van Gelder looks at the ‘digital divide’, and concludes that aid programmes would be better focused on broader development and economic liberalization than popular fashions like telecommunications.

Ken Phillips reassesses the food manufacturing industry five years after the IPA published the landmark report ‘Take Away Take-Away’, and finds that little has changed. The sector needs to undergo dramatic change if it is to stay globally competitive.

Ari Sharp visits North Korea looking for signs of capitalism, Mike Nahan visits Victoria looking for signs of fiscal responsibility, and Sinclair Davidson and Alex Robson visit the opinion pages of *Sydney Morning Herald* looking for signs of economics.

Andrew Kemp looks at the elusive genre of heavy metal, Hugh Tobin tries to confiscate mobile phones, and Scott Hargreaves urges Mark Latham to read Max Weber.

Amber Agustin scrutinizes the High Court and finds that the appointment process threatens federalist principles.

There’s a great deal more, including Strange Times (with a special focus on Loch News Monster news), analysis of salinity fears, media policy and, of course, a wide range of book reviews.
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Review

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A favourite accusation made by the IPA’s critics is that the Institute is ‘right-wing’. The Melbourne Age (10 December 2005) discussed the term as it applies to the IPA. The relevant section of the article ran as follows:

Think tanks aim to create new terms and concepts, but they don’t like being tagged themselves. Lindsay [Greg Lindsay of the Centre for Independent Studies] and Roskam reject the right-wing label. ‘Right-wing in Russia is old communist. Right-wing in Australia is One Nation,’ Roskam says... …

Says Hamilton [Clive Hamilton of The Australia Institute]: ‘Of course, they are right-wing. The don’t like it because of its associations, but it’s certainly an accurate description in terms of the historical use of the left/right division.’

There the discussion of exactly how the IPA could be ‘right-wing’ ends. Either Hamilton didn’t explain how ‘right-wing’ could be an accurate description of the IPA or the Age decided not to publish that explanation.

Of course, the origin of the term lies in the French Revolution. Those who supported the King and the monarchy sat on the right at meetings of the Estates-General, while those whose views didn’t coincide with the ruling regime sat on the left.

The idea of a single spectrum of political views ranging from the ‘right’ to the ‘left’ is now so out-dated as to be useless. In fact it is arguable whether the labels ever had any validity. If the criterion by which a political system is judged is the degree of state control over the lives of individuals, then there is nothing to differentiate ‘right-wing’ and ‘left-wing’ regimes. If a political spectrum is to be constructed, then surely it must have ‘freedom’ on one side of the axis and ‘oppression’ on the other—‘left’ and ‘right’ have nothing to do with it.

An examination of recent policy analyses published by the IPA demonstrates where on the spectrum the Institute lies. The IPA Backgrounder The Empowerment Agenda—Civil Society and Markets in Disability and Mental Health, argues for greater individual choice in the provision of services and less government control of the sector. Reducing Red Tape in New South Wales argues that bureaucratic interference in public and private life is resulting in a substantially reduced standard of living. Cutting Red Tape in Victoria’s Planning Process argues that government planning laws increase the price of housing.

None of these positions is remotely ‘right-wing’. And there’s nothing ‘right-wing’ about advocating for lower tax, less government, and greater choice. One of the greatest travesties of political discourse (and one of the greatest successes of those who believe in more state control) is that the term ‘right-wing’ has been turned on its head and directed against those who believe in exactly the opposite of everything that the word historically represents.

Unfortunately, the resort to the ‘right-wing’ label is not restricted to those at The Australia Institute. Journalists and writers of letters to newspaper editors continue to use the description, presumably because those journalists and letter writers have little or no knowledge of either politics or history.

From the Executive Director

John Roskam
Heritage through property

After being heritage listed, private property rights exist in name only.

Louise Staley

The Productivity Commission sometimes seems to have few friends and many enemies. Whether it is Hansonsites railing against its role in National Competition Policy, elements of the Left doing the same thing or various interest groups, such as conservationists, there is often someone unhappy with the Commission.

Usually the IPA is not in that camp. Often, we welcome the Productivity Commission’s rational and logical approach of applying microeconomics to various problems. But, in a recent draft report into heritage conservation, Conservation of Australia’s Historic Heritage Places, the Productivity Commission fails to address the fundamental problem with heritage conservation of private property. Unfortunately, the Commission nowhere recommends that governments (Federal, State and local) should always pay compensation to property owners when conservation-generated restrictions are imposed upon what owners can do with their own property.

Property rights advocates seem to have a bad press these days—apparently they’re either no-government extremists or hopeless utopians, pinning for a non-existent time when property owners were completely free to do whatever they wanted with their own property. But these questions are not merely theoretical. Evidence was provided to the Productivity Commission of what occurred to a couple who purchased a 1960s former display home in Sydney. The couple were stopped from demolishing it or even substantially renovating it.

Another owner of a house said:

Control of my property has been usurped and I am an unpaid public servant. There is no offer to waive or reduce rates… If I fill out all the innumerable forms correctly … I may be considered to be eligible for a grant of up to a maximum of $1,500. The whole process is intolerable and undemocratic. Why should my property be treated differently to another next door? Why should I have to bear the burden of the additional costs and loss of rights to do with my property that have been imposed through its Heritage Listing?

In parts of Parkville, Victoria, some owners of Victorian terraces are required to use ‘heritage’ colours when repainting, despite the fact the houses have been painted white for 30 or more years. To avoid having to paint their house a dirty brown, the owners undertake frequent ‘maintenance’ and discreetly repaint small parts white. These are but a few of the many types of restrictions that owners of heritage-listed properties face. Restrictions arising from heritage listing can range from stipulating what colour a house can be painted to whether security features can be installed, or the permissible extent of renovations, including of gardens, through to demolition and redevelopment restrictions.

The Productivity Commission has proposed that the only way a property can be ‘heritage listed’ (that is, have restrictions imposed about what can be done to the property) is if the owner and the listing authority agree to a conservation agreement. This means that listing can only happen with the property owner’s consent and that the listing only stays in effect as long as the property owner agrees. While such a proposal is consistent with a property rights approach (listing becomes, in reality, voluntary, for private property owners), it fails to account for situations where no agreement can be reached and where there are political reasons for the listing authority to act. In these circumstances, there must be legislated compensation for private property owners when there is forcible listing of private property on heritage registers.

Under the Constitution, the Federal Government must offer compensation when it compulsorily acquires property. State governments and local councils are not bound by the same requirement. In a narrow interpretation of this provision, the Federal Government would have to pay compensation if it confiscated a building from a private owner. In the case of heritage controls, however, the actual title to the property usually remains in private hands, but the owner is subjected to varying degrees of regulation which devalue the property. When this devaluation is substantial, property rights exist in name only. To a large extent, the government has expropriated a significant portion of the value of the property without compensation. For property rights to have meaning, compensation should be paid when use is heavily restricted, not simply expropriated. Additionally it should apply to all heritage listing, not only those undertaken by the Federal Government.

By proposing a scheme of voluntary listing, the Productivity Commission clearly intends it to be an incentive...
The Productivity Commission has correctly identified this problem as a ‘disconnect’ between those who decide what the community’s heritage values are and ‘those who bear the cost of providing these values when listing occurs’. Naturally, this leads to a strong incentive to ‘overlist’ properties, as there is no penalty to the government for doing so.

Local councils can be even worse than State Governments in this regard. Most do not have the option of conservation agreements; their only instrument is heritage controls through the planning process. Councils can apply heritage overlays or controls to entire streets or suburbs which affect all properties within the area—even if an individual property is not worthy of heritage conservation. Again, there is a gap between those who pay (individual property owners) and those who decide (councillors and council officers).

Local government requires far lower levels of heritage value to gain listing. To be listed on the national register, the property must have international or national significance (for example, the Royal Exhibition Buildings in Carlton or the Sydney Opera House). To gain a State listing, it needs State-wide or regional significance. But to make it on to a local list, a property needs only to be within a suburb with heritage features. In some cases, whole suburbs are listed as a way for the council to circumvent State medium-density planning policies. Too bad if your fibro shack is devalued through the process—there is no provision for compensation and, in some States, no capacity to appeal against the listing.

The result of this regulation-without-compensation approach is predictable. Affected landowners go to extraordinary lengths to avoid the controls, either by letting buildings deteriorate to such an extent that all heritage value is lost and they are condemned, or by illegally bringing in the bulldozers at midnight and risking the consequences.

Many of the ills of over-listing and under-preservation would disappear if governments were forced to pay compensation to property owners for devaluing their holdings. This is the traditional property rights argument which is out of favour among governments and many other meddlers—but one which it might have been expected that the Productivity Commission would advocate. If the community (or, more accurately, the elected representatives and their bureaucrats) want to force private landholders to retain old buildings for the community’s benefit, then the community (again, more accurately, taxes) should pay for the cost of doing so.
Economic planning is a term as archaic as phrases such as ‘people’s democracy’ or ‘proletarian justice’. Yet urban planning—and land planning generally—is flourishing and dominates the evolving structure of cities. Urban planning once meant the design and building of common infrastructure such as roads and sewerage in response to people’s locational preferences and population growth. But it has come to dictate urban geography, shaping a city’s structure and canalising changes in conformance with a centrally planned regulatory corset.

In Australia and many other places, urban planning has ceased to respond to individual needs and preferences but follows a central plan instead. Like socialist economic planning, urban planning claims to respond to the genuine needs and wishes of the community—needs and wishes that would otherwise be impossible to achieve. Prevention of urban sprawl is chief among its most contemporary targets.

Opposition to urban sprawl can be dated back to Elizabeth I, but it is only in recent times that opposition to it has assumed mystical respectability on a par with saving whales, stopping global warming and preventing GM foods. As with these other goals, the people opposing urban sprawl assume a mantle of moral superiority that reeks of self-denial but is invariably heavily laced with pure self-interest.

The first recorded attempts to stop populations spreading out from the immediate confines of an established city occurred as soon as a relatively settled system of law and order facilitated protections outside a city wall. The early opposition to it stemmed from costs that might be avoided in taxes to government bodies.

The romantic era of the late nineteenth century ushered in a different perspective. Unlike previous centuries, where the concerned elites had thought of cities as replete with Satanic Mills, new generations came to venerate the crowded urban landscape. More importantly, they resented the growth of suburbia and its more recent incarnation, ‘exurbia’, which was said to be eating up rural land. Much of the genesis of this view came from England, and the rural landscapes that were cherished were the villages, especially those in the south-east. From the 1940s, Green Belts surrounded London.

Even so, there was an overlap in the application of two rival notions—promoting population dispersion and preventing it. During the 1950s, responding to critics whose focus was on overcrowding, London was still building garden cities 50 miles away from the East End from which the teeming multitudes were to be poured. This same era lasted even longer in Australia, with Salisbury and Albury-Wodonga being among the dispersed cities that received favourable tax treatment well into the 1980s. A final British legacy of government population disbursement was the Location of Offices Bureau, which survived until the Thatcher clean-out of otiose and detrimental government agencies.

Other UK cities followed London and inexorably the new ideology came to infect the Antipodean outposts of Australia and New Zealand. Like many such infections, it took on a highly virulent form here, despite the lack of any population pressure—unlike the situation in England and Wales (and even there, urban development covers only 8 per cent of the country), in Australia, urbanization covers less than 0.3 per cent of the land area.

None of these trends had much effect in restraining the size of cities. Those cities that declined did so for other reasons. Some were redefined (with their peripheries taking in most of the growth); others saw a movement from a blighted inner urban area, often resulting from restrictions on redevelopment; some, such as Pittsburgh, were dependent on industries that themselves were in decline.

Above all, the decline in density resulted from technological developments, income growth and consumer preferences. People prefer to live in greater personal space, both internal and external, and detached somewhat from their neighbours. Urban sprawl is not the ‘inevitable unhappy result of laissez-faire capitalism’ but embodies individual preferences. Once technology allowed rapid journeys—first via rail and later by road—the cities expanded.
Added to this, we have seen a great dispersal of work locations, partly due to the decline of large integrated factories, and partly due to the changed nature of work, especially the growth of service industries which tend to be geographically dispersed.

In *Sprawl*, (University of Chicago Press, 2005) Robert Bruegmann traces the ebbs and flows of geographic dispersions and the policies attached to them. He finds a remarkable similarity across the world (Soviet-era Moscow being a rare exception made possible by total government control). European and Australian cities have tended to invest more than American cities in public transport and have, in many cases, put in place much stricter planning ordinances and subsidized housing to prevent geographic spread. Nonetheless, the density levels are comparable.

He also points out that there is some reversal of trends as people see more merit in inner-city living. In this respect he says,

One of the ironies is that much of what is most attractive … about cities’ ‘traditional’ character, is that many of the things that once defined them have disappeared. The decanting outward of all kinds of manufacturing and warehousing functions led to a dramatic reduction in street congestion, truck traffic and pollution.

In the process, factories were converted to lofts and the city centre itself became focused on entertainment and other leisure activities. This has also led to a reversal in cities such as San Francisco (and Melbourne and Adelaide) of the affluent/slum centre/suburb polarity.

Bruegmann also points out that the trend back is not leading to the higher concentrations that were favoured by anti-sprawl activists. Instead ordinances and other measures have been used by planners to stop densities from rising—a phenomenon best observed in Melbourne in the suburb of Camberwell.

In fact, urban change is endemic. The row houses on the periphery of major cities that were the sprawl of the 1930s and 1950s are now highly valued by the avant-garde. Daly City, in San Francisco, about which folk singer Pete Singer despicably sang in ‘Little Boxes’ (‘all made out of ticky-tacky and all look just the same’), is now respected and preserved. There is little difference in this from even earlier eras—many of the most prized real estate in Australian cities was last century’s urban sprawl—

the Prahrans and Balmains.

Anti-sprawl campaigns now dominate urban planning. Fuelling them and mightily facilitating their media profile are the *arrivistes* and others seeking to preserve a suburb or a favoured rural hideaway by keeping out the hoi polloi. Contradictions abound in this series of alliances. Thus, while the incumbents (Bruegmann calls them the ‘sensitive minority’) want to preserve a suburb, the planners want to re-create the denser populations that they hope will feed the café latte society they favour.

In both cases, this constrains the individual’s rights to use the land that he or she ostensibly owns. Intrinsic to planning is collectively determined preferences which usurp those of the landowner. The tool employed—the prevention of land being used in ways that individuals prefer—means that land is used less efficiently, or not at all. This creates an artificial scarcity, which drives up the value of land already in use for the preferred purposes. Existing home-owners see the effects of this reflected in the value of their own homes. Land on the periphery of cities, which might be worth a few thousand dollars per block in its alternative agricultural use is priced at hundreds of thousands of dollars. Developing the land costs

Winding back the intrusiveness of planning laws and providing legal protection to the individual in the use of his or her property will result in more affordable housing and lower cost shopping facilities.
perhaps $30,000 and the regulatory restraint on use drives up the price of existing houses.

Even where house building leapfrogged and indented the no-go areas, regulatory restraints meant that it did so at a higher land cost. Especially high costs of circumventing the planning restraints prevail in Australia where State-wide planning means that the restraints are particularly pervasive. Such outcomes are the ultimate corollary of scarcity—especially scarcity that is maintained by government frontier guards patrolling the availability of alternative supplies. Inevitably, the higher costs on the periphery are transmitted to adjacent properties and throughout the urban area, thereby creating the house-price escalation that Australia faces today.

Bruegmann’s book does not focus on these economic outcomes. That has been left to other parties and has been increasingly well documented—in particular, by Demographia, which has assembled house prices across a hundred cities and demonstrated a remarkable relationship between housing costs and restrictive land-planning regimes. Those cities with the lowest prices include those enjoying rapid growth, such as Atlanta and Houston, as well as those declining somewhat, such as Pittsburgh. They all have in common a relatively unrestrictive planning framework. In Europe, too, these same causes and effects are found—British house prices are over twice those found in Germany where there are constitutional rights that restrain the planning restraints.

The recent analysis of planning laws has been on their effects in bringing about higher house prices. In addition, they shape the structure of service industries. Planning approval is a key factor in the profitability of new shopping centres. This indicates that a shortage is created by the planners. And a shortage means exces-

For existing shop owners, the issue is that they have paid scarcity values and more for land on the basis that the planners will shield them from new competition. Existing shops and cinemas are able to extract higher prices from patrons than they would if there were more competition. Indeed, incredibly in the era of national competition policy, a new shopping centre has to demonstrate that it would not harm an existing facility! Of course, harming an existing facility means providing a more convenient or cheaper service to the consumer.

The fury of State politicians regarding the SACL proposals is all too understandable once the links between property development, politicians and regulation are properly understood. Planning approvals form the bedrock of a system of patronage that has long been the bankroller of NSW politics. Sydney Airport circumvents this monopoly and threatens to undermine it seriously.

The planning approval system’s value as a political war-chest is easy to exemplify. In Melbourne, Councillor Mohamed Abbouche from the City of Hume, through what he calls an ‘honest oversight’, failed to report a campaign donation from a developer who he supported in a successful application. The Victorian Premier sees the ‘oversight’ differently and has banned him from the ALP caucus.

Gold Coast Deputy-Mayor David Power seems to be in even deeper trouble. A public inquiry has found that the Deputy-Mayor solicited (and, with other parties, controlled) developer-backed finance to bankroll the election of a group of candidates posing as independents.

Doubtless, housing land builders tap the same lines of corruption to promote their interests. What needs to be understood is that any such wealth transfers to politicians, as well as poisoning the democratic process, result from increased prices to the consumer. They therefore constitute a double jeopardy both in undermining political integrity and in sapping consumers’ wealth.

All this stems from controls, often reflecting a surfeit of a form of democracy in the sense of allowing collective preferences to take a stake in individual property rights. It is reasonable for an individual urban dweller to have some say about the major changes being proposed by the next door neighbour. However, the rights to control this have become far too extensive, both to collectives of individuals and especially to the state planners. Winding back the intrusiveness of planning laws and providing legal protection to the individual in the use of his or her property is not only more consistent with individual freedom, but will also result in more affordable housing and lower cost shopping facilities.

Urban planning has ceased to respond to individual needs and preferences but follows a central plan instead.
A nyone watching the 2006 Australian Open or the Commonwealth Games on TV would have been struck by a number of things about Victoria.

Melbourne appears vibrant and prosperous. And the Victorian Government has loaded itself up with a massive ad-buy, enough to flood the media with high-cost, glib promotions about the State—and itself.

Victoria has pulled out of the rust belt condition it was mired in a little over a decade ago and is growing strongly. And now the Victorian Government has money to burn, which it is doing with enthusiasm.

During the 1990s, Victoria did more, and is now benefiting more than any other State, perhaps with the exception of Western Australia, from the economic reforms which swept the country in that era. The reforms introduced under the Kennett/Stockdale Government energized the State’s economy, creating opportunities and jobs; giving people a reason to stay in or return to Victoria; and giving businesses the capacity to compete internationally. They also improved the quality and efficiency of government and provided long overdue infrastructure, particularly in transport and recreation.

As a result, over the last decade the Victorian economy has grown at a compound average annual growth of 3.9 per cent—slightly above the national average. Unemployment has declined to a 30-year low. There is net migration to the State and Victoria has attracted a disproportionate share of private investment.

Although the reforms achieved their aim in terms of growth, they possessed a significant flaw in terms of distribution of the gains.

When it came to power, the Kennett Government raised a number of non-business taxes to aid in reducing the deficit. While it later reduced these tax increases and shaved a bit off other taxes, it kept the State’s tax take high and did not undertake any major cuts or reforms.

The Howard Government did undertake wide-ranging tax reform, but this had a number of crucial design flaws with respect to the States. It was done with the overarching objective of ‘revenue neutrality’ and was calculated using excessively pessimistic, pre-reform growth expectations. As result, it underestimated the States’ taxing capacities and allowed the States to keep too many legacy taxes in exchange for the GST. Compounding this, it gave the States all the GST revenue without the responsibility for raising it or being otherwise accountable.

As result, the Bracks Government not only inherited a fast-growing economy and a lean and efficient public sector, but a mean taxing machine. And it is reaping and spending its inheritance—in the process wasting much of the gains generated by the reform.

Since the Bracks Government came to power in 1999, State revenue has exceeded initial expectations by $17.7 billion. This translates into a ‘reform bonus’ equivalent to 16 per cent of its total revenue in each of its first six years.

This windfall has made for easy and sloppy government. It has allowed the Bracks Government to be all things to all people. It gave them the luxury of: spending big while appearing to be fiscally responsible; keeping taxes unchanged while reaping large tax windfalls; spending heavily on infrastructure without pushing debt up too high; allowing budgets and programme costs to blow-out without detrimental impact on the bottom line; and hiding behind the Commonwealth when it came to being accountable for GST revenue.

Many of the spending priorities of the Bracks Government have been appropriate, but have been carried out without an eye to achieving value for money.

The Bracks Government’s top priority has been health. Since it came to power in 1999, public hospital budgets have increased by around $3.5 billion—nearly 70 per cent. This has included over 5,000 additional nurses as well as a substantial increase in nurses’ wages and a reduction in their workloads. The spending has also employed over 1,000 additional doctors. As a result, Victorian public hospitals now have the highest staffing levels in the country (except for the Northern Territory) and the total health expenditure per person in Victoria is now the highest in the country (also with the exception of the Northern Territory).

While the spending has increased the capacity of, and throughput in public hospitals, as well reduced waiting lists and ambulance by-pass, it has achieved this with the force of money, not reform. Indeed, if anything, structural reform of the state health sector has gone backwards over the last six years.
The government has pursued similar programmes, albeit on a smaller scale, in the other front-line services. It has hired 6,000 additional teachers and school staff, and 1,500 more police—all on higher wage schedules. It has also spent heavily on additional schools, police infrastructure, court and justice facilities, and public transportation. The focus has been to increase capacity by spending rather than introducing measures to increase efficiency and effectiveness. Moreover, in each of the front-line areas, the focus has been on empowering service providers, rather than individuals. This huge influx of money has put the public sector cartels back in charge.

The Bracks Government has also followed a similar approach with infrastructure. It has used its reform bonus to ramp up public spending on infrastructure to record levels. Although much of the spending is on reasonable projects, the costs have been characteristically inflated by cost over-runs, delays and gold-plating.

If the Bracks Government had used its reform bonus solely to enhance the capacity of front-line services and infrastructure, it would be a passable outcome, particularly given the political difficulty of pursuing efficiency in a time of plenty.

But it hasn't used the bonus this carefully. It has greatly expanded the reach and cost of government and used the resources and machinery of government for its own political ends.

The Government's television and print advertisements brag about the efforts to increase efficiency and protection of whistleblowers. Indeed, the Government has embraced the Nanny State and its new army of information specialists—at an annual cost of $60 million—placed throughout the public sector to 'keep the community informed'. In truth, their main function is to control the flow of information to the public in order to present their political masters in a good light.

To be fair, the Bracks Government has done nothing more than most governments would do if given the chance. It has grasped the money generated by the tax system it inherited and used it for its own political advantage. It has decided that it will get more support from its constituencies with targeted spending than by reducing taxes.

The Howard Government has so far followed a similar path. It is not unreasonable to suspect that the Kennett Government was planning to do the same.

The fiscal situation in Victoria again highlights the need for tax reform—not only as a focus of the overall reform process, but as a reform driver. Tax cuts should precede, not follow reform.

It also highlights the need to review the GST agreement. The existing arrangement is far too generous to the States, both in terms of funding and accountability. At the very least, the States should be forced to eliminate all capital transaction taxes, including those on housing as was the original intention.

The Bracks Government... has greatly expanded the reach and cost of government and used the resources and machinery of government for its own political ends.
Lord Acton said that rowing was the perfect preparation for public life. You face in one direction while moving in the other. Gravely intoning their plans to cut red tape, each year our politicians pile it higher.

Although economic reformers have enjoyed great victories in Australia and elsewhere, the same cannot be said for their efforts thus far to relieve the burden of regulation. It’s easy to say that politicians should use regulation far less. They should. And perhaps when sufficient noise is made about the costs of regulation, they will regulate less. But only a little less. Why is this?

Take mortgage broking as an example. Most people know little and care even less for the details of the regulation of mortgage broking. Despite its esoteric nature, its an issue worth exploring. For the politics of regulation are the politics of detail. And that’s the problem. Politicians fear large scandals, not minute inconveniences. Yet regulation is built up from minutiae.

If politicians have publicly committed themselves to a policy of ‘minimum effective regulation’, as both major parties have, and yet constantly flout that in practice, that’s because each tiny infraction against the general policy costs them less than following the policy would cost them.

Until we develop the institutions through which to hold governments to account for each infraction of their policy—however much it partakes of mundane minutiae—we will continue as we have so far, with grand announcements about cutting through red tape. And more red tape.

**Mortgage broking regulation**

National regulation is currently being entertained for mortgage broking. To ensure that consumers get the right advice, should we require fridge salespeople to produce printed ‘fridge advisory statements’? That’s what we’ll be doing for finance. Correction: We’ve already done it for so-called ‘financial advisors’, and a 2005 discussion draft published by the NSW Office of Fair Trading on national finance broking calls for us to do the same with mortgage brokers. It won’t just hurt consumers with higher costs. Much worse, it further entrenches an impossible and misleading expectation—that salespeople can or will act as independent advisors.

Like its cousin, ‘financial planning’, mortgage broking exists in a netherworld. It is really a sales indust-

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try like selling fridges in a department store. Salespeople are usually honest and good sources of advice because of their extensive product knowledge. Customers understand, however, that they should ‘shop around’ and stay in charge because salespeople are there to make a sale.

But there’s good money to be made if, despite their remuneration as sales agents, practitioners can get their customers to think of them as fiduciaries—that is, people who act on behalf of their customers the way that a good doctor or accountant would.

The tensions thus created, together with a gallery of rogues on the fringe, have created a climate in which regulation is inevitable.

That’s a good thing. After all, a $300,000 loan is not a fridge. Good regulation would:

• ensure product information was simple and accessible;
• subject all brokers to an ombudsman to detect and remove bad practice; and
• require consumers to be advised that brokers were effectively sales agents who do not cover the whole market. Accordingly, consumers would be advised to shop around.

Going beyond these simple measures to put customers in the driver’s seat will make things much worse. Of course regulation adds costs. But the main problem is that the proposed regulation deepens the ambiguity between the duties of a salesperson and a fiduciary advisor. Sales agents are to become ‘licensed brokers’.

If it looks, waddles and quacks like a duck, we’ll make a mess trying to turn it into a swan. (I’m with Michael Leunig on this. There’s a lot to like about the humble duck.) Look at the ducks that once were insurance salespeople now morphed into the swans of financial planning. They’ve been progressively engulfed in an endless web of requirements to improve their advice.

The slabs of text comprising their constant customer assessments are generically drafted by sales executives, vetted by lawyers and spewed forth from software that ‘wows’ the customers in their living rooms but is promoted as ‘sales technology’ within the industry.

Do customers read these reviews? Do they find them helpful? Who knows? Not the regulator who, having regulated, moves on. Meanwhile, an average retiree will be around $65,000 poorer for the fees they pay to financial planners to help them choose a super fund rather than invest in ‘industry super’. And that’s before you count in industry funds’ extravagant investment outperformance over many commercial funds.

NSW regulation already requires ‘Finance Broking Contracts’ (FBCs) in which the broker outlines the service he’ll provide—bizarrely enough before he provides it! Now let’s say you prefer no fees—who doesn’t? If we write that into your FBC, then we can’t suggest you consider a product with fees, because it violates the contract. If we write this possibility of fees into the FBC, you will wonder if we’re fitting you up with fees you don’t want.

**Politicians fear large scandals, not minute inconveniences. Yet regulation is built up from minutiae.**

For all its inconvenience to good brokers, the shonky brokers are licking their chops. This Kafkaesque charade is the perfect beginning to a nightmare of documents. The broker explains one by one until that sweet moment when, [after?] a long sigh, the customer offers up his wearied and complete capitulation. Just sign here. And here. And here.

I could go on. The comparison interest rates we must quote, that bamboozle and mislead consumers so much more than the industry methodology they replaced. And on…. Covering comparison rates, limitation of liability, commissions, soft dollar commissions, spam, privacy. And on…. Providing customers with required gems of wisdom such as this: ‘Variable rates vary over time’.

Let’s stop playing ‘turn the duck into a swan’. Let’s clean up the abuses, send very clear signals about what brokers can and can’t offer, and let brokers and customers get on with their jobs.
Charity begins at home’. So wrote Charles Dickens in his Bleak House in 1852. But does this pithy account of human relations mean anything in the context of modern Australian society? ‘Charity’, as the legal status today stands in Australia, begins neither at home nor anywhere resembling it. As of the 21 December 2005, ‘charity’ or its Australian legal definition begins in a document enticingly entitled Taxation Ruling 2005/21, Income tax and fringe benefits tax: charities as issued by the Australian Taxation Office. ‘TR 2005/21’, as it is affectionately known, sets out the Tax Commissioner’s views on the meaning of ‘charity’.

What constitutes a charity and what it is permitted to do is an important question for Australian society. The Federal Treasury estimates that through DGR status, fringe benefits tax and income tax exemptions, charities and other not-for-profit organizations received benefits valued at close to $1 billion in 2004-05. While many charities are widely admired for the important community work they undertake, others shun any suggestion of transparency and even break the law in pursuit of so-called charitable purposes. The definition of where charity begins and ends therefore determines whether or not $1 billion in public funds is spent building social capital in Australian communities or funding sometimes nefarious activities of questionable merit.

For the Tax Commissioner, ‘charity’ has its origins in the rarefied air of early seventeenth-century England, where we find reference to the spirit and intention of what is now known as the Statute of Elizabeth. It was in the introduction to the Statute of Elizabeth that the English Government of the day took a shot at a list of purposes intended to be sufficient to be deemed charitable and hence the organization pursuing such a purpose to be eligible for the conferment of ‘charitable status’. According to the Australian Taxation Office, charity begins in seventeenth century England.

Upon a close examination of the Statute of Elizabeth, charities or ‘charitable trusts’, were accorded special legal status largely by virtue of their diminution of legitimate citizen demands upon the crown. Under the Statute of Elizabeth, the repair of ports, roads and bridges were all accorded charitable status in seventeenth-century England. Hence, on a faithful interpretation, the Statute of Elizabeth could make the likes of Patrick Corporation’s Chris Corrigan the head of Australia’s largest listed charity.

Australia has been a pioneer in the adoption and formation of democratic institutions that are the foundation of a strong and vibrant civil society, founded on liberal democratic principles. The Australian (or secret) ballot, the enfranchisement of all men and women are just two examples of the democratic institutions upon which Australia’s civil society has been founded. Republican sentiments aside, it is highly anachronistic that contemporary Australian definitions of ‘charity’ are dependent on a list drawn up at the beginning of the seventeenth century to suit very different times, very different needs and very different policy objectives.

While TR 2005/21 goes on to include references to definitions of ‘charity’ within Australian law, such as the provision of child care services on a non-profit basis, it does so in a rather disparate way. Its purpose may be well-intentioned, but TR 2005/21 builds on legal and legislative precedents that are centuries old and outdated for modern Australian society. As an approach to defining ‘charity’ in Australia today, TR 2005/21 fails to provide the clarity that could unleash the Australian charitable and community sector from a cumbersome and murky legal regime.

The 2001 Charity Definition Inquiry (CDI) chaired by former Federal Court Judge the Hon. Ian Sheppard recommended that ‘charity’ should begin at home, or rather, in the formal ‘home’ of Australia’s democracy, by means of a Charity Act in the Australian parliament. A Charity Act, appropriately designed, could eliminate a number of troubling issues in Australian charity law. The Act should define a charitable purpose with greater clarity in a context more suited to modern charitable activities than that derived from the Statute of Elizabeth enacted in 1601, Lord Macnaghten’s four heads of charity as conceived in 1891 or accumulated case law from the common law. All of these are the substantial reference points for the definition of ‘charity’ in the Tax Office’s tax ruling.

The gestation of a new charity could be best described as ‘troubled’. It faces uncertainty and trepidation while Tax Office officials evaluate its stated purposes to classify it within the context of TR 2005/21. It then awaits the coveted discretionary ministerial tick-off that confers Deductible Gift
Recipient (DGR) status for more than 20,000 organizations.

A Charity Act should eliminate the uncertainty and ambiguity surrounding charitable status by establishing a clear and transparent process by which organizations obtain charitable or other similar status and hence gain access to direct and indirect financial benefits. Currently, various governments, both State and Federal, bestow financial benefits through tax systems to organizations according to ad hoc regulatory arrangements. For example, an environmental group whose purpose and activities are identical to other groups who have DGR status must still be added to a list for this purpose at the discretion of the Environment Minister.

The substantial public resources expended by charities and non-profit organisations suggest that a Charity Act is required to balance the competing interests in the civil society sector. Accountability and transparency that ensures the continued trust and faith of the community must be balanced with the desire to promote and support civil society organisations and charities by freeing them from unnecessary or overzealous regulation.

An effective Charity Act should stipulate a framework in which charities and other organizations of civil society who benefit from community and government support are accountable. The Act should also consider, as has recently been recommended by the law reform commission in Ireland, the establishment of a new legal entity similar to a corporation but tailored in reporting requirements and subject to regulation more appropriate to the purposes and activities of charities and non-profits. Such an initiative might introduce special exemptions from certain regulations to allow genuine community activities—whether it be the CWA holding cake stalls, the scouts running lamington drives or individuals helping out at homeless shelters. Such activities should be free from regulation that stipulates kitchen hygiene and bureaucratic clearances for simple, straightforward and otherwise everyday activities.

The guiding purpose of a Charity Act should be to promote and support civil society organizations and charities. These organizations have an important role in promoting the free expression of individuals in modern society. The definition of charity provided by the Charity Act should be the result of widespread community debate that arrives at a political consensus. The CDI recommendations would be the logical starting point for this endeavour.

A Charity Act will also need to be clear on what activities and purposes do not qualify as charitable, how this will be determined and under what circumstances charitable or other related status might be revoked. TR 2005/21 fails to address this issue adequately. Greenpeace’s repeated illegal activities in pursuit of its purpose are just one example of an organization where a regulator needs to ensure that public resources are not diverted to fund activities which go beyond being merely dissident in nature to downright illegal.

Where organizations such as Greenpeace intentionally break the law in pursuit of their purpose, an activity test should be enforced by an entity nominated by a Charity Act. Political campaigning activity, activities contrary to public policy and activities for private benefit should be similarly declared incompatible with charitable purposes.

Civil society organizations and charities in particular have a significant role in Australian society. An estimated 700,000 predominantly small organizations with a combined revenue in 1999–2000 of $33.5 billion make up the non-profit sector in Australia. Approximately 35,000 of these organizations employ staff, with the largest 30,000 representing 8 per cent of Australia’s workforce.

A recent study commissioned by the Prime Minister’s Community Business Partnership estimates the total value of giving to nonprofits in 2004 at $8.9 billion, which represents a 58 per cent real increase since 1997. Along with financial resources, individuals are volunteering more than 800 million hours of their time.

Australia’s future society will be strengthened by the extent to which civil society organizations and charities are permitted to flourish. Civil society organizations (and specifically charities) offer the potential to enhance expression of individual freedom unflattered by the regulatory constraints and monolithic bureaucracy too often imposed by modern governments.

Liberal conservatives seek freedom for the individual, evidence for change and incremental initiatives that add to existing institutional virtues rather than raze them to the ground. Civil society organizations—to the extent that they embody the free expression of individuals—offer the opportunity to realize liberal conservative aspirations.

Serious policy efforts, beginning with a Charity Act that brings the regulation of charities and civil society organizations into the twenty-first century must be made to advance individual freedom and empower communities within our existing democratic institutions.

When it comes to charities, liberal conservatives may not wish to let ‘a thousand flowers bloom’, but we shouldn’t cringe from empowering individuals and communities within civil society to seed and nurture a few native blooms. Australian civil society has overseen the germination of powerful and effective democratic institutions in the past. When it comes to providing an environment in which individuals are free to express themselves through charities, volunteering and community participation, it might soon be true to say that a renewed concept of charity and civil society began in early twenty-first-century Australia.
Most visitors to Pyongyang notice the large modern building with the arched blue roof. It’s hard to miss it, really. It stands out from the depressing vista of housing flats and government buildings that are constructed in a colour that is best described as ‘Soviet Grey’. With its cheery design and undulating curves, from the outside it appears to be a small piece of Western suburbia. Inside, though, there’s a mini-revolution taking place.

There’s a telling moment in A State of Mind, a recent slice-of-life documentary about a family in North Korea, where we hear from one of the builders of this blue-roofed curiosity. ‘As far as I know, I’m building something called a market. There’s no question that it’s being built. But I don’t yet know how it will be run. We people are all curious about such a market.’

And so it was that North Korea had itself a market. It may be small, heavily regulated and forced upon the regime by outsiders as a trade-off for foreign aid, but the basic public space of market capitalism had reached its furthest ideological outpost. This was not the first time, though, that some elements of a free market had been seen in North Korea. There has reputedly been a black market operating for some time, selling various contraband (which includes nearly everything), as well as enterprising individuals selling a few basic essentials: mostly grain and cigarettes, which seem to be North Korean staples. According to Korea-watcher Andrei Lankov, unofficially there have been small private markets in parts of the country allowing the sale of small quantities of grain, although at times these face a crackdown from Pyongyang. These markets act to supplement the often dysfunctional state distribution programme. These small pockets of capitalism have emerged under the harshest and most dictatorial communist regime the world has known as a basic means of survival.

North Korea remains a stoic and isolated legacy of the Cold War, when most of the world, even the communist world, has moved on. A divided Korea was a legacy of Japan’s loss in the Second World War. As the brutal and deeply disliked colonial power, Japan’s exit from the peninsula was much celebrated. In its place was an American-controlled South Korea, and a Soviet-controlled North. It took only five years for war between the two to break out, when the North—acting with the tacit support of Stalin and Mao—launched an attack on the South. The ensuing three years was long, bloody, and ultimately futile, at least in terms of territory gained and lost: the border at the time of the truce in 1953 had barely moved from its place before the war started in 1950.

Thus, the two Koreas were set on two very different historical and ideological trajectories. The south, with the backing of its American sponsors, became a militaristic autocracy: an ally of the West, but one which steadfastly refused to embrace its political freedoms. The north, however, took a very different path. Under the leadership of charismatic military General Kim Il Sung, North Korea closely aligned itself with the Communist world, building good relations with both China and Russia, while it demonized the United States and the hated ‘imperialist’ Japanese.

Up until the 1990s, North Korea
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was a communist state, but the horror of its particular brand of autocracy was lost in the global struggle against authoritarian regimes. Even as the former Soviet states of Eastern and Central Europe were starting to embrace democracy and capitalism, North Korea remained steadfastly communist.

Though there are small signs of a free market in operation, there are few reasons for optimism. If and when the two Koreas unite as one nation, the size of the gap in economic and political systems between the two will be laid bare. The label ‘reunification’ is deceptive—instead, what is needed is a takeover of North Korea by South Korea. There is little room for compromise or middle ground to be found between the two. South Korea has proven itself to be one of the great political and economic successes of the past two decades. According to the IMF, its national economy is the tenth biggest in the world, and since 1987 it has proven itself to be a robust and effective democracy.

Although there has been much discussion and speculation about how to topple Kim Jong Il and his obnoxious regime, there has been relatively little discussion of what comes afterwards. For regime change to be a success, it requires more than merely the ending of the status quo. It requires a re-placement which allows the nation to achieve a social equilibrium, lest the newly liberated nation descend further into poverty and civil war. In the case of Korea, a smooth and successful transition will be a challenge.

A brief mental exercise reveals just how big the challenge will be. Imagine for a moment that the two Koreas were reunited as one. Setting aside, for now, the cost and possible bloodshed of achieving unification, the new Korea will face great difficulties. Many of those from the north will flee to the south, economic refugees in their own country, possibly overwhelming both economy and society in the south. Then there is the challenge of improving the infrastructure in the north. North Korean infrastructure is so appallingly constructed and maintained, where it exists at all, that it would need a complete overhaul. Perhaps most significant, though, is the challenge of educating North Koreans and inculcating the values of the free market and capitalism.

Take the simple task of balancing a household budget, for example. Although such an activity is second nature to those in the capitalist world, and indeed it is for South Koreans, it is alien to those from the North. Most North Koreans receive a pittance in monthly salary from their jobs (there is, officially at least, zero unemployment in DPRK, though underemployment is chronic) which is supplemented by rations from the State. It’s worth noting, incidentally, that the amount of food rationed by the government contains significantly less nutrition than that recommended as the minimum amount for human survival by the World Food Program (WFP). In 2005, rations were cut to 250 grams per person per day, about 40 per cent of the daily energy requirement, according to the WFP.

It is a sad irony that the south’s success in recent years has massively increased the price of reunification. The more that living standards and the quality of infrastructure improve in the south, the more it will cost to bring the north up to the same standard. The comparison is often made between the two Koreas and East and West Germany: such a comparison is fair, although it would be fortunate if North Korea had a quality of life anything like the former East Germany (German Democratic Republic). Instead, it is decades behind. The German example does, though, provide a useful template when considering Korean reunification.

In the German example, after unification, it was necessary to spend significant amounts of money improving infrastructure in the east (one estimate puts the total amount spent on German reunification since 1989 at $US1.9 trillion). There was nothing particularly selfless or charitable about this act: it was a pragmatic decision to stem the tide of refugees who would otherwise have fled west. On a social level, a reunited Germany faced the challenge of inculcating western democratic values within a population who had lived with the oppressive yoke of communism for decades. A free press, the right to vote and economic independence were all foreign ideas to a newly liberated population, and their introduction was something of a shock to the former East Germans. The task for those East Germans is mild compared to that faced by North Koreans upon reunification.

A shopkeeper and her stall outside the Kimjongilia Flower Show in Pyongyang. Notice the Coca-Cola for sale.
Another lesson which can be learnt from German reunification is the challenge of dealing with history. While the West Germans (Federal Republic of Germany) had come to grips with the horrors of Nazism and its role in the Second World War, the East Germans lived in a state of denial (and a State of denial, as well). The East German propaganda machine insisted that the Nazis were all from the West, and gave East Germans a false pride in their lack of complicity with the Nazis. It is unsurprising that much of the neo-Naziism which exists today in Germany is amongst former East Germans, a population which is both economically marginalized and also poorly versed in the truths of its own history.

Applied to Korea, the lesson is stark. Like East Germany, North Korea fails to give its citizens a truthful account of its nation’s war. A visit to the Victorious Fatherland Liberation War Museum in Pyongyang gives an interesting insight into the version of history taught in DPRK. The museum carries a collection of newspaper articles and diplomatic cables from the time leading up to the Korean War and creates the impression that the South Koreans started the war and that, for the North, it was merely a defensive effort. Such an account is scandalously false and denies both the expansionist desires of the north, and the military and diplomatic backing received by the North from both China and Russia. Yet such a fanciful view of history is nonetheless presented, and whenever the government seeks to whip up hatred toward the Americans (and, though less vocally, the South Koreans), it is these embers of history which are stoked. Reunification will require the northerners to understand the cold facts of their own history, and for many it will be a startling awakening.

The other rude awakening awaiting the north is the fact of its own poverty, both relative and absolute. One of the many myths perpetuated by the North Korean regime on its own people is that North Korean living standards compare favourably with those in the South. The regime often presents images of South Koreans living under oppressive American colonialism and compares its own circumstances in a positive light. Indeed, the state media are fond of dwelling on any negative stories about life in the south, especially any hostility between American troops stationed in the South and the local population. North Koreans consider themselves lucky to be North Koreans—they have equal distribution of material goods, free health care and education and the prospect of up to two decent meals a day. In isolation, which is how North Koreans live, these things are all very desirable and compare favourably with the South. The reality is, however, that on a GDP per capita basis, North Korea has just one-fourteenth the wealth of South Korea, according to a Yale Economic Review study. Reunification will quickly shatter these myths in a way that is likely to create animosity, both toward those who have done the deceiving, and those who have been living in such affluence.

With all this in mind, it is possible to see just what needs to be achieved for reunification to be successful. A massive amount of money, aid or perhaps loans on favourable terms, will need to be given to bring the north up the standards of the south. This aid shouldn’t be thought of as mere development aid, much of which has been wasteful and counterproductive elsewhere. Instead, it is more like the Marshall Plan which sought to improve life in Western Europe after the Second World War, with the obvious trade-off of improving the peaceful ambitions of those nations benefiting from the program. It is likely that hundreds of billions of dollars—$670 billion according to one bullish study by the Rand Corporation—will be required, but such is the price of bringing freedom to an oppressed people, and in the long run, it will bring economic benefits to the Korean peninsula. Independent of aid, there will be the necessity of introducing North Koreans to the rigours of the free market—pay based on merit, the balancing of household budgets, and pricing based on supply and demand.

Finally, North Koreans need to come to grips with their own history, understanding the culpability of the north in the Korean War, as well as their horrible deception at the hands of Kim Il Sung and Kim Jong II. Along with a serious discussion about how to rid the world of Kim Jong Il, there needs to be a discussion of how to deal with what comes afterwards. At present, such a discussion is only in its infancy.

**Take the simple task of balancing a household budget. Although such an activity is second nature to those in the capitalist world, it is alien to those from the North.**
Australia grows a lot of wheat. About 12 million hectares are planted each year, producing 24 million tonnes of grain. The Cole Royal Commission is currently focused on how the Australian Wheat Board sells this wheat internationally, a story which is splashed upon the front of the papers almost daily.

But not so long ago, wheat farms were featuring in stories about the spread of dryland salinity. In 2000–2001, the National Farmers Federation and the Australian Conservation Foundation pleaded for $65 billion to save the Australian environment from this particular scourge. They didn't get $65 billion—but the publicity did help secure a still not insubstantial $1.4 billion in Federal Government funding for the National Action Plan for Salinity and Water Quality.

The report which underpinned this lobbying effort, Australian Dryland Salinity Assessment 2000, is now recognized as seriously flawed, and the claims that 17 million hectares would be lost to the ‘white death’ are now dismissed as an exaggeration from overly pessimistic scientists. More detailed maps developed on a State-by-State basis under the Action Plan have similarly been dismissed as flawed.

This could be just another one of those stories about new evidence disproving an old theory, or it could be a story about the willful misuse of science to create the impression of a crisis to secure ongoing research funding. Let's consider some of the evidence.

The 1990s was dubbed the ‘Decade of Landcare’—a series of initiatives aimed at promoting sustainable land use and management. As the decade drew to a close, so did funding for Decade of Landcare projects.

Then, in late 1998, one-third of Telstra was sold for $14.24 billion, of which the Federal Government allocated $1.15 billion to ‘the environment’ through the establishment of a Natural Heritage Trust. This would see a continuation of Federal Government funding for environmental projects, including the establishment of a National Land and Water Resources Audit.

One of the Audit group’s first publications was the 2000 dryland salinity assessment report. The 129-page glossy warned that the area with a high potential to develop dryland salinity would likely increase from 6 million hectares in 2000 to 17 million hectares in 2050.

The Assessment did not distinguish between what might normally be considered irrigation salinity as opposed to dryland salinity. It determined that areas with groundwater within two metres of the surface were at high risk of dryland salinity. According to the assessment report, the forecast ground-water levels were ‘based on straight-line projection of recent trends in groundwater levels’, including for the continent’s most important agricultural area, the Murray–Darling Basin.

Yet the data did not support the notion that we had a situation of rising groundwater in the Murray–Darling Basin. Groundwater levels in the Murray, Murrumbidgee and Coleambally irrigation areas—the regions considered most at risk in eastern Australia—have generally fallen over the past ten years. After having risen in the 1970s, they were clearly falling by the late 1990s.

In 2004, the CSIRO provided me with the following reasons for the general fall in groundwater levels: improved land and water management practices, relatively dry climate over the past ten years and increased deeper groundwater pumping and higher induced leakage from shallow to deeper aquifers.

Interestingly, in the assessment report, even when values are shown for years before the report was published (for example, 1998), the values are ‘predictions’, not measured statistics. The assessment report does not provide any information about the actual measured extent of dryland salinity, nor does it test its projections against actual outcomes.

Data collected by Murray Irrigation Ltd since 1995 from 1,500 sites covering 500,000 hectares of land considered most at risk from irrigation salinity has shown a 90 per cent drop in the area af-
fected by shallow water tables.

Yet the assessment report was extensively quoted and accepted uncritically as evidence of a spreading dryland salinity problem.

The assessment report stated that there was a national salinity problem, but in order for the States to access some of the $1.4 billion from the salinity Action Plan, they needed to do more detailed mapping and show the extent of the potential problem on a catchment basis.

And so, in August 2002, agricultural industry representatives gathered with the media at Queensland’s Parliament House to hear speeches from Premier Peter Beattie, Federal Minister for Environment and Heritage Hon Dr David Kemp and others for the unveiling of one of the first catchment-based salinity hazard maps. In his speech, Premier Beattie stressed the gravity of the salinity problem and said that the salinity map he proudly displayed was based on the best science. He said it had been checked and endorsed by the CSIRO and the National Land and Water Audit.

The maps were met with disbelief by many. Local landholder Dr Ian Beale explained in the rural weekly, Queensland Country Life, that according to the government’s own Salinity Management Handbook, the area west of the 600mm isohyet (a geographic measurement of areas with equal precipitation) could not be at risk of dryland salinity. Yet it was shown on ‘the Premier’s map’ as bright red and therefore at high risk.

This map was subsequently used to inform government decision-making, including the assessment of permits for tree vegetation and permits for building on-farm storages. In southern NSW, these (now discredited) salinity hazard maps were used as a basis for calculating insurance premiums.

In Sydney, in March 2005, I listened to a speaker from Geoscience Australia explain how technology used by the Queensland Government to develop the salinity hazard maps and other maps used in catchment management planning were based on old, outdated technology. I queried this during the question session at the conference and received the reply that the Queensland scientists who put the original maps together were not skilled in the technology that they were using.

This includes the salinity hazard map which Premier Beattie said had been endorsed by the CSIRO—a map used to regulate vegetation management and calculate insurance premiums.

Six years on, most of the $1.4 billion has been spent and an increasing number of scientists are claiming, not that they have fixed the salinity problem, but rather that the assessment, and the hazard mapping that followed, grossly exaggerated the extent of the problem.

John Passioura from CSIRO wrote in a review paper published late last year, ‘From Propaganda to Practicalities—the progressive evolution of the salinity debate’ that, ‘Our only defence against the charge of charlatanism is that before deceiving others, we have taken great pains to deceive ourselves’. In the paper, he explains that:

Remote sensing techniques, especially aerial electromagnetics coupled with good ground-truthing, were revealing great variation below ground in the occurrence of saline aquifers, both laterally and vertically. The metaphor of the ‘silent flood’, the widespread rapidly-rising uniformly-saline watertable that is going to take out millions of hectares of our most productive agricultural land, was therefore being questioned—not by the mass media, who embraced it with the macabre fascination that goes with gothic horror novels, but by experienced observers of landscapes and of hydrographs. About 2 million hectares, or 0.4 per cent of all farmland is affected by salinity and most of this is in the Western Australian wheat belt. Programmes have been in place for many years to address this problem, but it is unclear how successful they have been. In eastern Australia, when the Murray–Darling Basin Commission started constructing salt interception schemes in the early 1980s, salt levels were rising in the Murray River and the area at risk of irrigation and dryland salinity was spreading. But farmers working with clever agronomists and engineers had effectively addressed many of these issues by the late 1990s. Dryland and irrigation salinity remains a problem, but there is evidence to suggest it was reducing in extent by the late 1990s.

So why did so many scientists go to so much trouble to convince themselves of an impending disaster in the late 1990s? Why did the National Farmers Federation risk the reputation of its farmers when it pleaded for $65 billion? The Queensland Government appears to have grossly overstated the extent of its actual and projected salinity problem, because it didn’t want to miss out on Federal Government funding promised through the National Action Plan for Salinity and Water Quality.

The Australian media is currently fixated on the AWB scandal and there have been cries that the Australian public should care more. There have been claims that the AWB story hasn’t gained traction with the average Australian because we accept that bribes are part of doing business in many overseas countries.

Should the average Australian care that $1.4 billion was secured to fund environmental works on the basis of nonsense predictions? Some in the science community have argued that they were simply being too pessimistic when they accepted the conclusion that 17 million hectares of land could be lost to dryland salinity. But if a Royal Commission along the lines of the Cole inquiry started examining the evidence, the ‘salinity science’ and ‘salinity maps’ would be exposed as works of propaganda rather than science.
Latham, Weber and compassion

Scott Hargreaves

Latham is a case study of what happens when a politician has lots of passion, but little sense of responsibility, and even less judgement.

Former Federal Opposition Leader, Mark Latham, is said to have read widely, but in the hurly-burly of undergraduate life he must have missed the great social theorist, Max Weber. If he had read Weber’s great work of politics, Politics as a Vocation, Latham might have saved himself the disillusionment and bitterness so candidly revealed in his own Diaries.

Max Weber (1864–1920) was one of the founders of social science as we understand it today. He enunciated many of the political ideas that we take for granted. So, for example, he said that what distinguished the state from other forms of social organization was that the state possesses a monopoly on the use of force. And Bob Hawke didn’t invent charisma in politics either. For Weber, ‘charismatic domination’ was one of the three forms of leadership—the others being traditional, and legal domination. The ‘Protestant Work Ethic’ was also first considered by Weber.

Weber delivered Politics as a Vocation as a lecture to the Union of Free Students in Munich in 1919, amidst Germany’s post-war collapse. Weber established the theoretical basis of his model of how modern democracies function and thus the nature of the appropriate role for the professional politician (Berufspolitiker).

Even the casual observer of bureaucracy and ‘public administration’ will be familiar with (though probably not actually have read) Weber’s descriptions of the capabilities and functions of the permanent officials of the state, whose guiding light is the impartial administration of objectively rational rules. What a good bureaucrat does is to worry about means, not ends. It is politicians who should concern themselves with ends. But this is not to say that Weber had no interest in what moves people to political action.

Weber’s analysis identified three key requirements for effectiveness, and made it clear that no one of these held singly could suffice for a politician to be effective. What were required were passion, a sense of responsibility and, finally, judgement. Latham is a case study of what happens when a politician has lots of passion, but little sense of responsibility, and even less judgement.

Ultimately, the Australian electorate recognized this—but relying on the innate good sense of the population to save the day at the last minute is a risky business.

Calls for more passion in politics are the sine qua non of the zealots and perennial adolescents that shadow every cause and party. A failure of passion is what is habitually invoked whenever their favoured project of social change is crushed by the will of the majority. Moreover, the chattering classes define conviction as passion only when practised in pursuit of what they see as the correct goals (otherwise the objective is dismissed as ‘ideological’). Weber understood this to be an untenable basis for evaluating the ethics of politicians. Weber understood that there needed to be an objective test of what is ethically ‘right’ rather than what was in accord with the ends of the observer.

What Latham didn’t know was that passion is not enough. For Weber, simply to feel passion, however genuinely, is not sufficient to make a politician unless, in the form of service to a ‘cause’, responsibility for that cause becomes the decisive lode-star of all action.

This is the burden that all political leaders know, but it is also one that

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has crushed many in high office and on the way to high office. What is also required is *judgement*, by which Weber means:

The ability to maintain one’s inner composure and calm while being receptive to realities, in other words distance from things and people.

This is the insight one should bear in mind when John Howard is criticized for making decisions which lack “compassion”. Indulging compassion by setting aside responsibility is the essence of poor judgement, and would not for long be tolerated by the voters.

That said, neither do the voters tolerate heartlessness or an apparent betrayal of stated convictions. Certainly no-one, least of all Weber, said finding the balance was easy:

For the problem is precisely this: how are hot passion and cool judgement to be forced together in a single soul? … if politics is to be genuinely human action, rather than some frivolous intellectual game, dedication to it can only be generated and sustained by passion.

For Weber, this combination of qualities is an essential defence against *vanity*, in which the striving for power becomes a matter of ‘purely personal self-intoxication instead of being placed entirely at the service of the cause’. This is just another form of a ‘lack of responsibility’.

In contrast to Machiavelli, Weber believes that if a politician is to have any ‘firm inner support’ he must remain in service to a cause. In modern parlance, this is the positive sense in which we refer to “conviction politicians”, such as Howard and Kennett. In each case, their ‘lode-star’ and sense of responsibility is fixed and strong, even if different capacities for judgement are displayed.

Finally, Weber turns his attention to the ‘problem of the ethos of politics as a “cause”’. As previously stated, we shouldn’t judge ethics of any particular politician merely on the relativistic basis of whether or not we approve of their *Weltanschauungen* or ‘world-view’. Moreover, we cannot evaluate according to the more everyday, personal qualities we might seek in our friends, spouses, and business partners, because politics is a distinctive domain in which decisions are backed by the coercive power of the state. The ethics of the Sermon on the Mount, alas, cannot be our guide.

**Calls for more passion in politics are the sine qua non of the zealots and perennial adolescents that shadow every cause and party.**

In contrast to the Gospel, the injunction to the politician must be ‘you shall resist evil with force, for if you do not, you are responsible for the spread of evil’.

A politician trying to follow the Gospel or similar pacifist principles takes the view that he ‘does what is right and places the outcome in God’s hands’, but the professional politician follows the ethic of responsibility, in which one must answer for the consequences of one’s actions.

In exploring the difference between these ethics, Weber developed an insight that has some bearing on the difference between Mark Latham and John Howard. Weber wrote that most politicians who proclaim that the ‘The World Is Stupid’ are merely ‘windbags’.

Latham’s *Diaries* make it clear that even without his unfortunate illness, he was not going to stay for the long haul, and his sharpest barbs were saved for those in the ALP. He may have been a bit more than a windbag, but the strength of his conviction and the power of his rebarbative rhetoric were certainly not matched by political stamina.

Weber even anticipated Latham’s 2005 speech in which he preached flight from organized politics towards a more personal level of engagement. Speaking of the embittered failed revolutionaries of his own time, Weber remarked that:

They did not have the vocation they had for politics … they would have done better to cultivate plain and simple brotherliness.

By contrast, the demeanour of Howard during the lead-up to the invasion of Iraq could have been the model for the following, unusually heartfelt, commentary from Weber:

it is immensely moving when a mature person (whether old or young) who feels with his whole soul the responsibility he bears for the consequences of his actions, and who acts on the basis of an ethics of responsibility, says at some point, ‘Here I stand, I can do no other’.

In closing his essay, Weber coins what is now a well-known simile from which many writers extract the first clause, namely that ‘politics means slow, strong drilling through hard boards’, whereas in the full quotation he goes on to say ‘with a combination of passion and a sense of judgement’.
Federalism and the High Court

Fixing the appointment process

Amber Agustin

Obervers of the recent confirmation hearings for President George W Bush’s nomination of Judge Samuel Alito to the US Supreme Court may be forgiven for experiencing a thrill of schadenfreude. The pomp and pageantry, the circus and staging, the props and the politics: it’s just not the Australian way.

But the self-laudatory smugness of the ‘there but for the grace of God’ club is not entirely justified. Even as we congratulate ourselves on the modesty and refinement of our own High Court appointment process, we must recognise that it is a process characterised by an absence of transparency, ill-defined selection criteria and inadequate consultation. The process is also haunted by, at best, the apparent politicization of the appointment of Justices of the High Court and, at worst, the spectre of nepotism and Government patronage.

Is it not that the limited opportunity for public scrutiny of the candidate’s credentials and the informality of the consultation process is inadequate protection against the risk of an ‘it’s not what you know, it’s who you know’ approach?

While acknowledging that legal excellence must be the primary requirement of a candidate for appointment to the High Court, there are certainly other appropriate criteria. Few would dispute that candidates for judicial appointment should also have demonstrated impartiality and integrity, be of good character and have experience in matters of constitutional and federal law.

Matters of geography might not immediately come to mind when con-
While acknowledging that legal excellence must be the primary requirement of a candidate for appointment to the High Court, there are certainly other appropriate criteria.

Federalism, our system of government in which power is divided between the Federal Government and the States, is established by the Constitution.

In a nation as vast and varying as Australia, federalism has two great advantages. First, it leaves regional matters in regional hands and places the balance of power in the hands of the Commonwealth where necessary and appropriate. Second, it divides power so that there is no one central repository of power.

The High Court, in its first century, was called upon as the final arbiter of disputes between the Federal Government and the States as the various polities struggled for power. Being the nominated arbiter of disputes, the Court ought to be the defender of the Constitution, which clearly intended a more than ceremonial role for the States.

The High Court has, however, taken a somewhat centralist view of Constitutional federalism, but despite the leaning towards central power over States rights, it remains for the High Court to draw the line between the States and the Commonwealth. In spite of the sometimes frenzied battles over States’ rights, the States remain fundamental polities within Australian government and the Court will be required to determine the breadth of Commonwealth power unless and until the Constitution undergoes major reconstructive surgery.

In addition to its original jurisdiction as the forum for constitutional disputes, the High Court has exclusive jurisdiction in disputes between the Commonwealth and the States and disputes between the States. The High Court also has an appellate jurisdiction as the final court of appeal from the various State and Territory Supreme Courts.

The geographic make-up of the High Court

Yet, in more than a hundred years, there has never been a High Court Justice appointed from South Australia or Tasmania.

The High Court, never having counted a South Australian among its number, is the final court of appeal from matters of South Australian law and is the original and final court for matters between, say, the Commonwealth and South Australia or New South Wales and South Australia.

Of the 45 Justices appointed to the High Court since its creation, there have been more appointments from New South Wales than from all the other States and Territories combined. Twenty-four appointments have been from New South Wales, while only 13 have been from Victoria, six from Queensland and two from Western Australia. Over 80 per cent of High Court appointments have been from New South Wales and Victoria. Over 95 per cent of High Court appointments have been from the three large eastern states.

Many Australians may view federalism as an anachronism in a modern Australia united by technology, communications networks and the ‘think global or perish’ mentality. Perhaps Australians see themselves as no longer divided by regional differences. Or perhaps it is only the residents of the major cities in the eastern States who hold that view.

Perhaps some see the borders between the States and Territories as mere formalities and a unitary system could see the end of the troublesome and oft-maligned Commonwealth Grants Commission. Federalism, however, is not an optional extra to be overlooked at will, or with the help of a willing Senate. Federalism is our constitution-
ally-entrenched system of government. Notwithstanding the ongoing efforts of the Federal Government to centralise power in Canberra and the High Court's complicity in this, federal judicial appointments should acknowledge and embrace the role and importance of federalism.

Of more popular significance, however, are the consequences for the High Court and indeed for federalism of the historical and ongoing absence of Justices from all States and Territories within the Commonwealth. The High Court appointment process has failed to ensure that the Court reflects the federation over which it presides as the final arbiter of disputes and the guardian of the Constitution.

Chief Justice Murray Gleeson of the High Court has remarked that an argument that the High Court should include Justices from across the nation was the same as saying that an Australian sporting team should have players from across the nation. With the greatest respect to Chief Justice Gleeson, a better analogy would be to a State of Origin Series in which all the umpires are from New South Wales. Notwithstanding the great integrity of the umpires, it is the appearance of bias that will concern the Queensland supporters and thus call into question the integrity of the result. The High Court Justices are not players—they are umpires.

The appointment of Justices from the various States and Territories (and indeed allowing the Justices to reside in their home States) keeps the Court in touch with 'the shade of thought and attitude around the nation' and would 'keep the Court in tune with the federal nature of Australia'.

In contrast, the disproportionate appointment of Justices from Sydney and Melbourne may lead, and has arguably already led, to an actual, or at least perceived centralist tendency on the part of the Court at the expense of the smaller States and Territories and the prestige of the Court.

It may yet be too controversial to presume that a Justice's State of origin is a factor that informs, albeit subconsciously, a Justice's jurisprudence or method. Most of the caseload of the High Court is made up of hard cases. Easy cases, or those cases where the application of the law to the facts is clear, usually do not reach the High Court. The Court is left with hard cases and often the bench is split as to the outcome and the reasons. Hard cases and uncertain law are fertile grounds for the seeds of experience, personal philosophy and social engineering to flourish. It follows that the Court should benefit from diverse experiences both of the community and the practice of law by its Justices, including those from the various States and Territories.

There is certainly tension between the more populous eastern states and the balance of the nation. There is a great need for public confidence in the High Court.

New South Wales has not been above complaining that its fair share of the Commonwealth Grants Commission pie is being consumed by the less populous states, including Queensland. These tensions have been particularly visible in recent times in relation to the distribution of the GST revenue.

The Hon. Michael Atkinson, Attorney-General of South Australia, said on the occasion of the appointment of Justice Heydon to the High Court, 'there's anxiety in South Australia … that all Federal governments are centralising and the High Court seems to accommodate that centralisation, and if there were some High Court Justices from the smaller States, perhaps a centralising tendency on the High Court may not be as great as it has been for the last 50 years'.

Fixing the appointment process
There are a number of options for the formalization of the federal judicial appointment process. Most of these options would require Constitutional amendment.

Some States in the United States select judicial officers by popular election. They would, in effect, be the elected representatives of their electorates.

Slightly less unpalatable is the legislative election model, seen in some European countries, including Switzerland and Germany, and in the European Court of Human Rights and the International Court of Justice. The election by the legislature of High Court Justices to hold tenure would remove the process from the clutches of fickle voters, only to deliver it into the cauldron of partisan politics. There would remain concerns about Justices representing their supporters, and candidates might be tempted to court nomination by pandering to a party's political agenda.

The antithesis of the election of judges is the career judiciary, seen in civil law jurisdictions including France and Italy. Judges are trained
as a separate branch of the profession and progress through the ranks of the judiciary through their careers. While it is true that some Australian magistrates and judges have been elevated to the bench from the ranks of the courts’ administration, it cannot be said that there is a tradition of a career judiciary in Australia. Judicial officers are drawn from the Bar, law firms and academia. A career judiciary would not be suited to the Australian experience, nor would such a proposal be likely to receive support from a legal profession that accepts that judicial officers will be drawn from its ranks.

Another option would be the creation of a system in which the States and Territories play a substantive rather than ceremonial role in the appointment process. A rotating system of appointments by the States and Territories would certainly remedy concerns about the centralizing of the Court, but at the expense of the integrity of the Court. Considering a proposal of this nature, Sir Edmund Barton argued that such a Court would create ‘a suspicion that the Chief Justices chosen from the various states were intended to be in some sort of way the representatives of provincial interests’.

The United States Supreme Court appointment process, which provides for nomination by the President and the advice and consent of the Senate, has a number of merits. The Senate Judiciary Committee conducts hearings which allow for the public examination of the credentials of the nominees and her/his fitness for judicial office. The accountability of the Executive is thus enhanced and the process allows for considerable transparency.

Needless to say, the process is political and can result in vicious battles, pulling the Court down into the political mire. One risk of Senate-confirminable judicial appointments is that the appointments might be used as bargaining chips in a trade-off in which the Court fails to secure the services of the most qualified candidate in a triumph of palpably partisan mediocrity.

The Court’s richness and its great capacity for dissent should not be limited by politicizing the process.

A judicial appointments commission

Did the drafters of the Constitution intend to give the Government carte blanche when appointing the Justices of the High Court? It seems so. Does the Court benefit from counting among its numbers brilliant jurists of diverse experience? Unquestionably. Would the Court benefit from a broader consultative process? Undoubtedly.

The Government of the day should be able to appoint its nominee to the bench, but the process would be improved by greater transparency, the development of criteria to define the concept of ‘merit’ and the formalization of the process to ensure that the Attorney-General’s inquiries are sufficiently broad and appropriate.

Various countries, including the United Kingdom, New Zealand, Canada and India, have adopted various judicial appointment commission models. The British Secretary of State for Constitutional Affairs said of a proposal for the Judicial Appointments Commission,

In a modern democratic society it is no longer acceptable for judicial appointments to be entirely in the hands of a Government Minister... The appointments system must be, and must be seen to be, independent of Government. It must be transparent. It must be accountable. And it must inspire public confidence.

Judicial appointment commissions are seen as improving the judicial appointment procedure which is significant in terms of public confidence in the process and thus in the judiciary itself. The establishment of a High Court Judicial Appointment Commission would address the flaws in the appointment process and enhance the process of making appointments to the High Court.

The benefits of a judicial appointment commission for the High Court would be numerous. The brief of such a commission might be to undertake consultation, identify potential candidates, research and interview candidates, receive submissions, assess candidates against defined selection criteria and make recommendations to the Attorney-General. Such a model would not require constitutional amendment, as the commission’s role would be advisory and not determinative.

The members of the commission would ideally be drawn from the Federal and State judiciaries, the profession, academia and the legislature (including representatives of the Government, the Opposition and significant minor parties).

The formalization of the selection criteria and the process of consultation would allow relevant secondary considerations, such as the State or Territory of residence and practice of a candidate for High Court appointment, to be taken into account. The transparency and formality of such a process would allow for greater confidence in the process and in the High Court which, after all, is the High Court of Australia, not the ‘High Court of Sydney and Melbourne’.
Food manufacturing facing the wall

Ken Phillips

Is food manufacturing in Australia effectively looking at a dead end? Is it going the way of the clothing manufacturing industry—essentially becoming a cottage industry? Is it like car manufacturing—particularly component manufacturing—in terminal and irrecoverable decline?

Many observers of the industry think so. The IPA thinks differently.

Recently, Kraft announced it was shifting its domestic biscuit manufacturing to China. The Food and Grocery Council states that there has not been one new food manufacturing plant in Australia in the last ten years. But there have been plenty of closures.

Four years ago, when the IPA first started its work reform unit, it released a report on Australian food manufacturing called Take Away Take Away. The report found that food manufacturing is in massive trouble. Most industry commentators say that its troubles stem from insurmountable global competition and an excessively small domestic market which prevents economies of scale. But this is only part of the story—moaning about the pressures of globalization is too often used as an excuse for poor domestic management performance.

Global competition presents a challenge, but it also presents a much larger opportunity for the Australian food manufacturing industry.

The bigger problem in the sector is a management culture which has refused to address core operational performance issues. The dominant problem is labour relations and the refusal or inability of managers to grasp their management responsibilities. They fail to focus total workforces on the operational needs of their businesses.

The most powerful part of IPA’s 2001 report was the telling of simple stories of operational disaster leading to closure and/or non investment. Smart international investors have walked away from Australia because of bad industrial relations in the sector. Others find it easier to close up shop rather than attempt to fix industrial relations issues. The report named companies and received heavy criticism for doing so.

Powerful industry bodies slammed us. We discovered that entire sections of government departments were told to study our claims and prove us wrong. However, these responses have never surfaced.

Four years later, the sector remains just as threatened and the gloom persists.

The Kraft closure is just another in the long line of examples that continue to demonstrate the industry’s peril. There are more closures to come. More investments in food plants are planned for overseas—investments that could easily have happened in Australia.

But the positive potential in Australia for food manufacturing remains the same. Australia is a food bowl with superb farmers who are fully exposed to the hard edge of international competition, are innovate and who remain highly competitive. The raw talent of our farmers is our biggest food-sector advantage.

Food globalization creates markets where ‘niche’ areas offer great potential because any one single ‘niche’ can require supply volumes that vastly exceed entire Australian markets. Successful niche market supply can be achieved with a solid focus on production excellence and steady, dynamic market awareness.

But our food manufacturing plants are ageing. They need replacement and/or significant upgrading. Food plant developments are now a bit like medium-sized mines requiring large-scale investment. The plants have to be big, high tech, require minimal labour to operate and must supply product to large regional or global markets.

New plants have to be built on time and on budget. But, so far, they have been killed off at this first base. The construction sector malfunctions to such a large degree that plants run grossly over time and over budget to a significant extent. Investment has frozen. Australia’s construction reputation stinks among potential international investors in the food sector. They won’t touch us.

Food manufacturing suffers badly from the ‘branch office’ problem. The big manufacturers who dominate the industry are global conglomerates.

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Head offices are overseas and Australia usually only rates in the global corporate framework as an afterthought—following North America, Europe and Asia. China, India and Latin America are overwhelmingly more significant than Australia as existing and emerging markets and production hubs. Far too often, Australian-based managers don’t have the authority to take the decisions they need to, particularly if it involves reform which could raise public profile, thereby possibly damaging valuable consumer brand names. Local managers for the most part don’t have career incentives to confront difficult management issues. Careers are built on maintaining production and not being associated with difficulties.

Governments of all political persuasions continue to be in denial about the sector’s problems. Huge sums of taxpayers’ money are thrown at puffed-up public relations propaganda directed to potential investors, who quietly snigger at us behind our backs. Many an industry representative and government bureaucrat live off international food trade-fair junkets that rarely produce export orders. In general, these exercises are self-delusional charades. A cynical view? Absolutely—but warranted.

The very real problems, however, are the industrial relations cultures, agreements and behaviours of the worst order. It’s not a worker problem. It’s a management issue.

Managers in food manufacturing cannot get routine maintenance to be done on time or within budget. Communication with the workforce is literally non-existent. Managers are scared to talk directly with people on the workshop floor. If they do, their authority is undermined by executives above them who react in a knee-jerk fashion to a knock on the door by a disgruntled shop steward. Review and renegotiation of workplace agreements resemble set-piece Shakespearean tragedies rather than movement to deliver business performance.

Fortunately, there are some significant and outstanding exceptions. The Mars/Masterfoods and Sanitarium groups come readily to mind. They are, however, outflanked by the ‘problem’ food companies—those that have long histories of entrenched, systemic and unaddressed problems. Far too often the ‘solution’ pursued involves a horse-trading in shares, brands and facilities, designed to pump up share prices temporarily to make CEOs look good. It doesn’t work, and the locked-in management performance problems prevail and remain unaddressed.

Food manufacturing is a hard grind. It’s a mature industry that involves daily, minute attention to every detail of production. Marketing gives the hype to encourage sales, but profit is made or lost in the ability to produce consistent, high quality, safe product on time, to cost and to deliver efficient distribution. This is a human, not a machine process. Production machines are the tools. Humans keep them operating, co-ordinate the sourcing and delivery of raw materials, maintain quality and consistency, and pray that they don’t mess up and poison significant numbers of their consumers.

It’s tricky and not glamorous. To make it work requires sophisticated co-ordination of, and co-operation between, all the people in the firm. If one element is out, the entire system falters. This is where industrial relations is critical in Australian food manufacturing. Our systems, process and cultures are endemicity bad, thereby preventing the co-ordination and co-operation required. It might appear to be a problem ‘on the shop floor’, but in fact it pervades every aspect of how companies function. It intimates CEOs into indecision. It creates dysfunction.

The IPA followed up Take Away Take Away with a detailed study into the food manufacturers’ capacity to manage, as delivered under their company-specific industrial agreements. The Capacity to Manage study gave one insight into how the processes of managerial neutering come about.

But some stories show how bad can be turned into good. A couple of years ago, the massive, global food giant Simplot sold their control of the Australian icon brand Four’n Twenty pies to the minnow Victorian regional pie manufacturer, Patties Pies. Simplot had an industrial relations disaster at its Melbourne plant which stopped managerial control of the plant. The giant Simplot could not fix the problem. But the product had huge value if it could be realized. Patties could succeed where Simplot failed. They shifted production to Gippsland, resolving industrial relations problems at the same time.

The potential demonstrated by Four’n Twenty abounds throughout the sector. If applied over the long term, Australia could witness a generation shift in the scale, scope and success of food manufacturing. We should be capable of being world beaters and world exporters in this sector.
The latest proposals for media reform do nothing but reinforce the corporatist approach that the government has taken towards the industry. Designed to entrench incumbents and ‘future-proof’ them against competition, references to dramatic changes in media brought about by information technology are mere wrapping around minor regulatory tweaks. The discussion paper released in March, Meeting the Digital Challenge: Reforming Australia’s media in the digital age, has been greeted by much press and industry as a bold reform agenda for the sector, but the reality is that the government’s proposals do not even scratch the surface of the reforms which are desperately needed.

The Government’s reforms do no justice to the massive, sweeping changes faced by media in Australia and around the world.

In this field, few commentators, regulators and policy-makers shy away from the term ‘revolution’. If the word was not just as uniformly applicable to so many other industries whose business models are under siege from cheap, ubiquitous, and steadily more powerful computing and communications technologies, then it would no doubt be appropriate. Few, areas of economic activity—if any—are immune.

**Digital television is a perfect example of the poverty of the silo model of regulation, indeed, of regulation in the sector as a whole.**

The histories of media content, delivery, and technology have been histories where radical change is the norm, not the exception. The twentieth century saw dramatic changes in the format, delivery and content of a huge range of media, from the amateur radio and recorded sound of its first decade to the MP3 of its last. Numerous technological innovations have altered the way we consume, produce and interact with media. The transition of magazine printing from the older rotary press to offset lithography in the 1960s and 1970s dramatically reduced the cost of printing, resulting in the proliferation of hundreds of specialty publications, in contrast with the previously rather limited selection. The history of popular music was shaped by a potent combination of the use of the FM band by independent broadcasters and the emerging competition from television in the 1950s. Vinyl recordings, tapes, CDs and MP3s—and the devices they are played on—have further altered our relationship with popular music, and the content of the music itself.

To a degree, the regulatory environment which has evolved has reflected the constantly mutating forms of its target. Ever since the ill-conceived ‘sealed set’ radio scheme—where, after a government-business conference in 1923, licensed stations would sell receivers locked so that they could only tune into the licensee’s station—there has been little attempt to allow the market to determine the topography of the Australian media terrain. Originating with a progressive-era pact between government and business for an orderly and restricted radio network, similar frameworks have been adapted for each new technology as it entered the market.

As the 2000 Productivity Commission report into broadcasting services aptly stated, the Australian media reflects a history of political, technical, industrial, economic and social compromises. This legacy of quid pro quos
has created a policy framework that is inward looking, anti-competitive and restrictive’.

In praise of stupidity

Traditional media are commonly viewed through the traditional vertical ‘silo’ model—separate, distinct networks which do not interact. Content delivered over radio is distinct from content delivered at the news-stand, and both are distinct from content delivered over television. And the networks themselves are designed to deliver and interpret the specific content they were designed for. Radio is unsuited to being delivered over the television network. The resolution of a basic television signal is ill-suited for delivering text in bulk.

Australian regulation is built around this silo model. For instance, content requirements and quotas are platform-specific. Anti-siphoning regulations use business models as their determinant. And, most obviously, cross-media laws specifically regulate different networks—artificially restricting ownership and, implicitly, content sharing—in local markets.

‘Convergence’, the process by which multiple products—for instance, video, person-to-person communication and broadcast audio—are delivered over a single network (the Internet) has made this regulatory approach increasingly unsuitable. Instead, the Internet is governed by an ideal termed ‘end to end’ (or e2e). Writes Lawrence Lessig:

e2e says to build the network so the intelligence rests in the ends, and the network itself remains simple. Simple networks, smart applications.

The reason for this design was simple. With e2e, innovation on the Internet didn’t depend upon the network. New content or new applications could run regardless of whether the network knew about them. New content or new applications would run because the network simply took packets of data and moved them along. The fundamental feature of this network design was neutrality among packets. The network was simple, or ‘stupid’… and the consequence of stupidity, at least among computer engineers, is the inability to discriminate. Innovators thus knew that if their ideas were wanted, the network would run them.

The neutrality of the Internet Protocol (IP), essentially just an agreement on how computers communicate with each other, has encouraged innovators to develop countless programs unimagined by the Internet’s architects.

The ‘dumb pipe’ of the Internet, unlike the highly regulated silos of traditional media, just doesn’t know how to distinguish between any of these.

As the content is divorced from the infrastructure that provides it, the Internet is infinitely expandable. There is no theoretical limit upon how many devices can connect to the Internet, subject to realizable minor adjustments such as IPv6 (Internet Protocol version 6.)

Stuck in the silos

But Meeting the Digital Challenge, despite its ambitious title, shuns any major realignment of media policy towards this new environment in favour of minor and insubstantial readjustments. Most clearly, the paper indicates a continual focus on what can only be described as a textbook example of government’s mis-regulating a new technology, digital television. Digital television is a perfect example of the poverty of the silo model of regulation, indeed, of regulation in the sector as a whole.

A new Digital Action Plan is intended to spur along take-up of digital television, and is likely to provide for a switchover period sometime between 2010–2012, having admitted that the previous deadline of 2008 was unrealistic.

Although the discussion paper is scornful of a ‘purely market based’ approach, it is the rejection of market processes that has left the transition bogged down in its technological quagmire. While ostensibly trying to encourage take-up of the new technology, content restrictions which force networks to simulcast the same content on both digital and analogue television remove the natural advantage that new forms of media have—the capacity to show something new. Instead, for most people, the investment in a set-top box or television capable of receiving the new signals will provide merely an increase in picture quality.

Digital television needs to add value for consumers, value above its ‘digital’ attribute—which is not inherently good in isolation. But instead of addressing this key issue, proposals for a Digital Action Plan focus on measures to stimulate take-up while most existing restrictions remain in place—including digital television awareness campaigns, compulsory labelling for analogue receivers, and financial assistance for those who cannot afford the new-fangled technology.

It is good that the ABC and SBS have been allowed to provide multi-channelling on their digital spectrum—why could not similar measures be taken for the far more popular commercial networks? It is unlikely that this relaxation will be sufficient to reverse the national apathy to a technology which the government bodies are so enthusiastic about.

The only reform is radical reform

But both government and regulators need to face the fact that, even if they get the switchover perfect from here on
in, and the regulatory environment is at its theoretical most effective, digital television is unlikely ever to be the cornerstone of Australian media. That ship has long sailed.

It is not even appropriate to call media delivered over the Internet ‘next generation’—new services such as Google Video and iTunes, delivering television and video content on demand for negligible cost, may be the thin end of the wedge, but they are fully functional and increasingly popular. On the same day that Communications Minister Helen Coonan released the discussion paper, Apple’s iTunes—which had already sold 1 billion music files worldwide, and was offering television programmes such as Lost and Desperate Housewives—offered its first movie for purchase and download. The on-line retailing giant, Amazon, will soon offer movie downloads, and Google Video has been offering classic films since the start of the year. (And this is all before accounting for the massive, virtually unmeasurable peer-to-peer networks trading in current international television programmes and films.)

Unlike digital television, the advantages of these new services are clear—providing content free from quotas, timetables or geographic borders.

Even in its infancy, the Internet commands significant ground in consumers’ entertainment choices. The low price of Internet usage obscures its significance as an entertainment competitor, but a recent National Bureau of Economic Research paper, ‘Valuing Consumer Products by the Time Spent Using Them: An Application to the Internet’, showed that, in the United States, around 10 per cent of all leisure time was spent on the Internet.

This is before on-demand television and film services have begun to take effect—most services have been launched in early 2006. Once it gains even the moderate popularity commanded by music downloading, and across a wider demographic, the real ‘digital challenge’ will become evident.

Therefore, whether the government recognizes it or not, the only regulatory framework that can fulfil the objectives of the Broadcasting Services Act—particularly, diversity of content and ownership, quality, competition and even development and reflection of Australian national character—is one that allows entrepreneurial investors to roll out high speed end-to-end networks free from government interference.

**Releasing popular content from restrictions would encourage migration to new services far more than a top-down Digital Action Plan ever could**

Rather than promoting services with dubious value, the government would do better to radically deregulate media industries to level the playing field across the sector—reducing distinctions between types of network, and recognizing that, regardless of whether the service traditionally delivers only sound, or only television, they now compete with a technology uniquely suited to delivering entertainment. Any regulations which apply to one form of media should, by rights, apply to any other. Mismatched regulations artificially cripple legacy networks at the very moment that they need maximum flexibility to compete.

Regulations which restrict content need to be quickly reassessed. Australian and local content quotas, whatever their nationalist intent, are meaningless on an end-to-end network—there is no way to measure 55 per cent of infinity, and even if there were, no mechanism by which Australian regulators could enforce it on a global entertainment service such as iTunes.

Anti-siphoning and anti-hoarding provisions have necessarily disadvantaged new media networks like pay television and digital television by providing incumbents with privileged access to ‘premium’ content. It is more worrying that, as the Chairman of the ACCC has intimated, premium content on so-called ‘third generation’ mobile networks and broadband services could be considered competition bottlenecks. Rather than further entrenching this regime by tweaking ‘loopholes’ as the discussion paper does, a forward-thinking media policy would look carefully at the rationale for anti-siphoning.

Releasing popular content from restrictions such as these would encourage migration to new services far more than a top-down Digital Action Plan ever could.

*Meeting the Digital Challenge* allows for greater flexibility in foreign and cross-media ownership, but significant restrictions still remain. Even before the Internet became a significant challenge to the market share of traditional media, the regulated diversity of ownership is a strikingly indirect method of ensuring diversity of content—editorial or otherwise. As consumers migrate to an infinitely expandable network which allows for unlimited entrants in a global entertainment market, artificial restrictions on ownership in Australia make less sense. Media companies no longer face competition from a restricted set of similarly protected competitors, but from IT upstarts across the world. The sector, and consumers, could benefit from a radical liberalization of the market.

It is unfortunate that the Government has skipped the chance to push through radical reforms of the media sector, at a time when the need for such reform is evident. Forward-thinking deregulation is not a pipe-dream in this area—every newspaper across the country has emphasized the ‘revolutionary’ potential of the Internet—but what remains is for the Government to take the same leadership it has shown in other areas such as industrial relations, rather than to kowtow to the largely protectionist media industry.
From radio to television to wireless broadband, the information economy has taken unprecedented steps forward in the past century. The rate of newly designed innovative and creative products and services that make the lives of millions, if not billions, more enjoyable and more efficient continues to break new ground.

But technology is not just a fad that produces neat little gadgets: by some estimates, well over 70 per cent of the wealth of the world’s richest economies is now held in the form of intangible, knowledge-based assets. The development of higher quality, lower cost products and associated improvements in productivity have always resulted from increases in human knowledge; the term ‘information economy’ not only makes this explicit, but also emphasizes the degree to which we are now dependent on this stock of human-created capital.

Without the tools of the information economy and the infrastructure that supports them, however, some argue that the poor, who do not share the fruits of this considerable growth are held back by a so-called ‘digital divide’. Based on this logic, the promise of digital technologies can and will correct decades of stagnant economic growth and leapfrog poorer countries into the digital economy.

One of the proposed ways to close this so-called divide is to create and legislate mandatory foreign aid transfers from wealthy nations to poorer ones. The funds, administered by a UN body and aimed at hastening the achievement of the vaunted Millennium Development Goals, would then be invested in information and communications technology (ICT) infrastructure development projects. One such plan involves the bulk purchase of specific technology, such as the recently unveiled $100 laptop, developed by the Massachusetts Institute of Technology Media Lab (although it has still not been produced at this price, despite its creator’s insistence that this is what it will cost).

Yet despite high-level meetings, new funds ventured, new task forces created and the new promises made, progress towards bridging the gap between the have and have-nots of the digital world has been lacklustre. Using data developed by the United Nations Conference on Trade and Development (UNCTAD) to measure the rate of ICT use across countries, the most recent figures portray a distinct inequality of access to technology that now forms the backbone of the information economy across countries. In sub-Saharan Africa, for example, only 20 per cent of the population has a fixed phone line connection. Furthermore, because of the extent of their poverty, the poor typically invest less...
Policymakers... dazzled by the allure of new ‘out of the box’ innovations such as the iPod... are poised to commit the same errors as previous proponents of foreign ‘aid’.

than US$10 annually on ICTs per family member. By contrast, there is such extensive coverage of this ‘basic’ technology in Western countries that it is usually taken for granted.

Although it is true that ICTs remain inaccessible for the vast majority of the poor, other revealing development indicators show how clean water, air quality, energy reliability, educational and employment opportunities, and the quality and reliability of other basic amenities are lacking in these same countries as well.

With this more comprehensive view of all of the genuinely important separations that divide rich and poor, the real ‘digital divide’ might better be defined as the ‘development divide’ between countries.

Aid to improve ICTs?

Talk of bridging the ‘digital divide’ may be new, but the call for massive intervention in order to correct disparities of one kind or another has been a persistent feature of development theories since the 1950s. Then, economists argued that, in poor countries, rates of savings, and hence rates of investment, were too low for these countries to escape from poverty. Such countries were said to be caught in a ‘low-level equilibrium trap’, where increases in income led to population growth rather than investment and productivity growth. It was claimed that, with a large enough injection of foreign aid, the gap would be filled and thus the cycle of poverty broken.

Following this theory, billions of dollars were provided in grants and soft loans to the governments of poor countries. But this ‘aid’ has singularly failed to contribute to sustainable economic growth.

Africa, by far the largest recipient of foreign ‘assistance’, with US$450 billion in the past forty years alone, is a continent where such investments in ‘infrastructure projects’ were deemed fundamental to kick-starting its course of development. Dogging its landscape are vacant steel mills, rundown aluminium smelters and dams that still do not provide a reliable electricity supply to a continent that currently has a lower per capita average income than it did before such grandiose schemes were implemented through aid agencies and local governments.

Yet policymakers—dazzled by the allure of new ‘out of the box’ innovations such as the iPod and by buzzwords such as e-commerce—are poised to commit the same errors as previous proponents of foreign ‘aid’.

The end of the line

These projects fail for a number of reasons. In part, they fail because they do not reach the intended target groups. Government officials ensure that foreign aid primarily goes to politically friendly groups. Even where aid projects are not directly controlled by the government, programmes targeted at low-income groups are frequently captured by these cliques, who are more articulate, influential and wealthy—and who have the means to establish local ‘NGOs’ that can carry out the projects.

In part, such projects fail because they also crowd out private funding. If, for example, governments heed the lofty call to connect the world’s population to the Internet by 2015 and assume the responsibility for Internet service provision and subsequently charge no fees, private operators can only respond to this clear signal by exiting the market. Without competitive market conditions, however, government-supported monopolies are less likely to improve quality and/or reduce the costs associated with expansion and the required infrastructure maintenance.

Evidence shows that in countries where competition between private providers of high-speed broadband is fiercest, there are higher rates of investment in infrastructure, higher access rates and lower costs, as compared to countries where market entry for potential competitors is constrained by state-supported firms.

The benefits of privatization and increased competition can increase the access to and the spread of ICTs almost immediately, bringing great benefits to the poorest. Soon after India’s international calls monopoly, VSNL, was privatized in 2002, national and international call charges fell by as much as 50 per cent. In addition, the speed of obtaining a new line went from many weeks to a few days, with direct impacts both on the general population and on those seeking to do business.

The lower costs of calls, the higher availability of broadband Internet (which can now be used for Internet protocol-telephony) and more responsive private-sector provision are among the most important determinants driving investments into call-centres in India. In this respect, ICTs can bring fabulous levels of wealth to poorer communities. But it is because of competitive firms that challenged the incumbent monopolist in an open market, without protection from the government, that outsourcing centres have been able to offer cost-effective al-

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In Turkey, for instance, there is a ‘special communication tax’ of US$16.52 and an annual ‘wireless licence fee’ of US$7.39 on consumers. There is a one-time activation charge of US$13.80 in Bangladesh, where market penetration remains well below 10 per cent (see chart below). Syrians must pay a 20 per cent VAT on all phones even though firms importing handsets into the country are already faced with customs-related charges of more than 45 per cent of the original export price.

The Pakistani authorities impose a 40 per cent tariff on all telecommunications equipment and an additional tax on SIM cards of US$8.36. Although mobile telephony in the country does attract a significant amount of investment, the level is surely smaller than would be the case in the absence of taxes that make access to phones prohibitive for the poor.

The chart above shows the level of taxation as a percentage of total cost of mobile ownership in a selection of less-developed countries. Although tariffs are relatively low in many countries, there are some notable exceptions, such as Uganda, Zambia and Ethiopia. The prospect of reducing tariffs in these (and indeed in all) countries presents a real opportunity for policymakers positively to influence development outcomes.

Can ICTs contribute to development?

Nevertheless, there have been some success stories, with ICTs having positive impacts on local communities, helping them chart their own way out of poverty.

The radio is perhaps the best example. In Nepal, one of the world’s poorest countries, 71 per cent of the population finds the radio a reliable source of information—far higher than in areas where the state is strongly involved, such as schools, newspapers and television. Independent radio broadcasting services have been found to be positively and significantly correlated with a range of development outcomes, including life expectancy, lower infant mortality, schooling outcomes and better functioning markets. Furthermore, radio equipment is cheap and not difficult to repair.

A more contemporary example is mobile telephony. Farmers now receive information about current market prices for their produce through their mobile phones, which empowers them to negotiate better deals with traders. Additionally, it is now commonplace alternatives to companies in higher-cost countries.

For the Internet, countries with more open telecommunication sectors also have more hosts and providers, lower monthly charges and high rates of Internet penetration. Highly liberalized telecommunications networks charge African Internet users eight times less than state-protected monopolies and it takes as little as three telecom competitors to bring prices downward while maintaining sufficient profit levels to finance the investments required to improve and maintain infrastructure.

At the other end of the scale, Internet use among Ethiopians is small and concentrated among the elite—98 per cent of Internet users have university degrees, whereas 65 per cent of the country’s population are illiterate—the annual subscription plan charged by the state-owned monopoly Internet service provider is US$200. This is roughly twice as much as the average Ethiopian’s annual income.

With that being said, it is difficult to imagine that the Internet alone could be of much practical use in a country that suffers from wide-spread famine almost annually. Even if connections were somehow granted to every household in poorer countries, there are clearly other elements that contribute to the wealth and utility of the Internet—the existence of, and the ability to create, relevant content in local languages, for instance—that are still absent and have not been given enough consideration for those connections to become meaningful.
for immigrant workers in wealthy countries to transfer a portion of their salaries back home through mobile telephone ‘texts’, which often avoid the transaction costs with remittances (higher than 1 per cent of the total value in some cases).

Eager to provide their services to more markets, private operators are embracing the challenge to expand mobile telephony to poorer countries. Investments in telecommunications alone between 1993 and 2003 totalled US$230 billion in poor countries, according to the World Bank.

**Dirigiste Divide**

These success stories, however, also illustrate how increased access to meaningful technologies is again hampered by governments. As investments increase and mobile telephony firms become more established in poorer countries, they have also become bigger targets for governments who are eager to expand budgets. These firms and other technology-based entrepreneurs are subjected to exorbitant taxes and tariffs that exacerbate an environment that is already hostile to investment and expansion of ICTs.

Whereas it is nigh-on impossible to collect taxes in the informal ‘black’ markets that predominate in most poor countries, it is relatively easy to collect taxes from large, well-defined companies, especially when they are not based domestically and have no political power.

In addition, ruling cliques see opportunities for private gain through the imposition of regulations on ICTs, which may be circumnavigated by the payment of an appropriate-sized bribe to a relevant official. For instance, the construction and maintenance of base stations, including negotiating property rights and determining signal strength and mast sizes, is a heavily regulated process by governments, which only serves to drive up the cost of expanding network coverage.

Furthermore, regulations and taxes drive up the cost of handsets and connections. Private handset producers have managed to develop and export durable hand-held devices for as little as US$30. But the full cost of owning a mobile phone is considerably greater because of one-off levies, import duties and restrictions on imports of possibly even cheaper second-hand phones (see box).

**Economic freedom for development**

Government impediments to wider use of ICTs—in the form of regulations and taxes—are symptomatic of a wider problem of excessive government interference in economic activity.

A precondition of sustainable development is the strength of the institutions of the free society: property rights, the rule of law, free markets and limited government. Most if not all poor countries lack the rule of law. Most have inadequately defined and poorly enforceable property rights. Most have markets that are either rigged by the state or otherwise unfree. Most have governments that are anything but limited. That is why they are poor.

ICTs may help in some measure to improve the chances for these institutions to be established. Radios can facilitate the distribution of information about the role of property rights, the rule of law and so on, educating the poor so that they can become demanders of change. The Internet, likewise, can facilitate information exchange among the intellectual elite, perhaps leading some to realize that the way to improve the welfare of the poor is through reducing the regulatory burdens imposed on entrepreneurs, even though this may reduce their own ability to exact bribes. Whether they actually care about the poor is, of course, another matter.

But ICTs can also be a means to communicate ideas that are antithetical to the free society. So, while one may hope that their uptake leads to improvements in the institutional framework of poor societies, there is no guarantee.

On balance, it is more likely that causality will go in the other direction. When a state improves its institutions, enabling people to own property and engage in free exchange; when it upholds contracts and applies the law in a non-discriminatory manner to all; when it removes its rapacious taxes and regulations, then it will experience growth and then it will find entrepreneurs from within and without who want to invest in the development of its ICT sector—along with the rest of the economy.

Countries that adopt free institutions are more developed and also enjoy higher growth rates and continually improving standards of living—along with greater access to ICTs—than countries that do not.

It is because of economic freedom that wealthy countries are now experiencing unprecedented levels of innovation and creativity, which brings us back to where we began. For economic progress to occur, people need to be able to own and trade in property. As progress occurs, so there is a shift towards property that is intangible—because there is a shift towards knowledge-based economic activities. Ensuring that these intangible assets may be owned and exchanged therefore becomes increasingly important. Underlying all of this is the rule of law, without which no progress can be made.

The hype and the attention devoted to the digital divide risks diverting scarce resources away from efforts that really matter to improving the lot of the poor. By helping foster the institutions of the free society—in order to bring down the barriers to creativity and innovation in the world’s most repressed countries—they too can have access to ICTs, as a result of better development through greater freedom.
The popular press often has a difficult relationship with the economics profession. The sober and respected economist Paul Krugman has a regular column in the *New York Times* which is so error-ridden that one commentator has branded him ‘America’s Looniest Liberal Pundit’.

Similarly, much ‘economic analysis’ in the Australian press has little relationship to economic thought. This is not to argue that the Australian media is bereft of good writing in the field, but it is peppered with arguments which do little for the profession or public debate in this country. This article looks at one particular writer, Ross Gittins, as typical of this phenomenon.

Ross Gittins is the economics editor for the *Sydney Morning Herald*, and a columnist for *The Age*. On Saturdays, he often writes a calm exposé of an economic issue. On Wednesdays, he is angry, pugnacious, dismissive and opinionated. There is, of course, nothing wrong with being opinionated—we all are. But the guise of opinion cannot excuse flawed analyses and erroneous conclusions.

**Anti-Economist and Anti-Consumer?**

Gittins’ pet hate is anyone who is a mainstream economist. According to him, ‘economic rationalists’ have taken ‘economic theory and raised it to the status of a faith-based religion’.

Those economists who argue for greater economic freedom, less regulation, and lower taxes often bear the brunt of his sarcasm and innuendo. Recently, Gittins said of the entire profession:

> Economists’ susceptibility to calls for lower taxes arises not from strong empirical evidence, but from the individualist bias of neoclassical economics and the fact that leading business, bureaucratic and media economists are themselves highly paid.

Putting his conspiracy theory aside, there is one aspect of free markets that Gittins finds particularly infuriating: Though some choice is obviously better than none, I think choice isn’t all it’s cracked up to be. In fact, I’m starting to think choice is one of the great cons of consumer capitalism.… For a start, consumers often find the choices they’re presented with quite confusing. You’re being asked to compare an apple with an orange.

One immediately conjures up images of consumers at their local Coles or Woolworths (if they manage to successfully traverse this choice…), completely inert in the fruit & vegetable section, unsuccessfully trying to cope with the infinitely painful trauma of choosing between an apple and an orange.

The contention that individuals cannot act purposefully because there are ‘too many’ choices is far from being a minor point. Once we abandon the view that individuals are rational and know what is in their own best interests, and believe instead that they cannot choose between something as straightforward as apples and oranges, consumer sovereignty would seem to have little or no place. For some—
cluding Gittins—state paternalism and bureaucratic interference become more legitimate. In Gittins' world, it is unclear who should be making choices for consumers if consumers can't do so themselves—presumably these are things best left to government?

For Gittins, any amount of policy mischief is permissible. Looking at income taxation and the work/leisure trade-off in an April 2005 article, he concludes (after reading about a study of the banana consumption habits of vervet monkeys) that envious, status-seeking Australians work too hard and earn too much for their own good, and that higher taxes should be used to force them to work less.

And what are the ultimate consequences of too much choice? For Gittins, the answer is obvious: 'I have a theory that so much choice is making us greedy.'

The reader is left wondering about the evidence supporting this 'theory'. As Gittins himself admits in an earlier article in which he opposed extended trading hours:

I know of no evidence that consumer spending has been growing faster than the economy generally since the advent of weekend trading a decade or more ago. Although he dislikes mainstream economists, Gittins prides himself as an economics educator. He grew up in a family of teachers, and his forthcoming book 'provides bite-sized, easy-to-follow explanations of the key issues in economics and macroeconomics that shape our world'.

A cursory inspection of Gittins' articles reveals numerous contradictions. Last year he argued that higher income taxes were good because they would force people to work less and so avoid the problem of 'workaholism'. One month later he said the exact opposite and said that lower taxes would induce people to work fewer hours.

Mesmerised by a combination of the prevailing anti-government political ideology and their wafflets, economists have forgotten the elementary truth that while the substitution effect from a tax cut encourages increased income-earning, the income effect discourages it.

It's thus a completely empirical question as to which effect outweighs the other... I bet many economists have forgotten—and don't want to be reminded—that there's no convincing empirical evidence of the substitution effect dominating the income effect in the case of primary earners. (emphasis added)

But just over six months later, he again reverses his position to tell us that taxes should rise:

You'd think that as our time has become more valuable over the years—as hourly wage rates have risen so much in real terms—we'd be using the extra money to allow us to work fewer hours. But it hasn't worked out that way. Indeed, for many of us the number of hours we work has increased even as hourly wage rates have risen. (emphasis added)

A least one of his arguments must be wrong—higher income taxes either make people work more or they make people work less—it can't be both.

Gittins is in difficulty when using demand-and-supply analysis to assess the effects of policy. His examination of the NSW vendor tax begins with the standard taunting:

Never assume that because someone can run a business successfully they must know a lot about how the economy works. The safest assumption is that any high-sounding economic argument mounted by a businessperson or lobby group is just something they've latched onto because it suits their pockets. Whether the supposedly economic argument makes sense they just as likely don't know—and they certainly don't care.

Several paragraphs of Gittins lecturing about demand-and-supply diagrams follow. But he gets it wrong. Taxing a good drives a wedge between the prices that buyers pay (the tax-inclusive price) and the prices that sellers receive (the net-of-tax price). Consumers pay more, producers get less and fewer transactions occur. Removing a tax leads to consumers paying less, and producers getting more.

But Gittins tells us that removing a vendor tax will result in a fall in prices received by sellers. This, he says, justifies his prior claims that businessmen and real estate professionals are economically illiterate and—you guessed it—'irrational'.

Conclusion

Journalists such as Ross Gittins are largely to blame for the public perception that economics is not objective and is ultimately merely a matter of one's ideology, politics or class. This perception is wrong. There are objective laws in economics. One cannot interpret the world very well without a knowledge of such basic principles, and one should not write an opinion article concerning tax policy while suffering from such ignorance. We leave the reader with the following warning, paraphrasing something we recently read in a Sydney newspaper:

Never assume that because someone is an economics editor for a major newspaper they must know a lot about how the economy works. The safest assumption is that any high-sounding economic argument mounted by a journalist is just something they've latched onto because it suits their pocketbook. Whether the supposedly economic argument makes sense they just as likely don't know—and they certainly don't care.
Economists are often (unfairly) derided for having a multiplicity of views on any subject one cares to choose. But on the question of reform of Australia’s tax and welfare system there is a high degree of unanimity.

Your government has done much to reduce unemployment from the catastrophic levels created by the severe recessions in the last third of the twentieth century.

We are both old enough to remember when the top marginal rate of income tax was 66 cents in the dollar, when loans by banks were rationed, when labour markets danced to the tunes of the union bosses and when inflation took off during a mining boom because monetary policy was rendered unworkable by regulated financial markets, including a very sticky exchange rate. Clearly much has been achieved since those dark days for the Australian economy.

Low inflation seems well entrenched under your Government’s arrangements which make the Reserve Bank accountable and responsible for the outcome. Financial markets have been deregulated—loans are allocated more by likely returns than a customer’s place in the queue outside their bank manager’s door. Labour markets are certainly freer than they were, and your current round of reforms will improve things still further. Fiscal policy is more disciplined, and budget surpluses have enabled government debt to be greatly reduced.

But there are major issues for the labour market still to be tackled. The evidence is that Australia’s labour market participation is well behind that of other countries and that the effective rate of unemployment is well above the rate as officially measured.

Part of the reason for our internationally low labour market participation lies with major unresolved issues with Australia’s tax and welfare system. The GST has been a great success but its compliance cost is considerable, and your Government has not made the offsetting cuts to rates of income tax which were promised. The high rates of personal income tax—particularly the very high effective marginal tax rates (EMTRs) that face people on welfare who try to move to paid employment—are a major impediment to higher labour market participation.

It is not surprising to see advocates of the free-market propose lowering taxes. But what is notable about recent debate is the broad base of support for significant change.

In particular, high marginal income (including capital gains) tax rates at all levels in the income range inhibit productivity growth in Australia. At higher levels in the range they inhibit personally risky innovation. They reduce the competitiveness of Australia as a base for footloose, high-skill industries. In addition, the divergence between corporate and income tax rates introduces uneven opportunities for avoid-
formance that reduce community respect for the taxation system.

High effective marginal tax rates (EMTRs) at lower incomes inhibit productivity growth, are a major deterrent to labour force participation, and block the labour market deregulation that is necessary for full employment. Here the problem of high effective marginal tax rates derives from the interrelationship of the tax and social security systems. This inter-relationship generates severe ‘poverty traps’. It is a tribute to the foresight and work ethic of Australians that low-skill people enter the labour force at all, since for some millions of Australians the short-term net financial benefits of doing so are small and often negative when the additional costs of going to work (including transport and clothing) are taken into account. High EMTRs also introduce large incentives for tax evasion through employment in the ‘black economy’.

In commenting on a draft of this letter, Garnaut added: ‘I’d make even more than you do of the ridiculous complexity of our tax system … compare our complex GST with NZ’s simple one; our thousands of pages of income tax act with US or NZ, the incomprehensible superannuation tax rules, etc. We are the world champions in high transaction costs in just about everything.’

Show us the money…

It is a deeply difficult task to prove the benefits of tax reform. In essence, there are no economic models with the necessary behavioural linkages—for example, models with convincing estimates of the additional entrepreneurial effort, or even simple hours-worked effects that would be elicited by lower rates of income tax. The experiences of countries which have cut taxes suggest to most economists who have studied them closely that there is a substantial effect; but it is relatively easy for a sceptic to deny or downplay such effects.

Perhaps the most relevant evidence is the powerful growth of tax receipts in Australia when particular rates of tax have been cut—the clearest case being the cut in the rate of company tax at the turn of the century.

We should not ignore the logical point used as the basis of the so-called ‘Laffer curve’ in this debate. When the marginal rate of income tax is 50 per cent (or more), a taxpayer earns as much (or more) from evading or avoiding tax than he does from earning more. It is no coincidence that Australia’s richest people pay relatively little tax, which does nothing to maintain the confidence in the overall fairness of Australia’s tax system.

The ability to take measured risks and to work hard, combined with a relatively low personal burden of tax, is a recipe for building great wealth. The aim of tax policy should be to offer the possibility of this recipe to all Australians, not just the already wealthy, who have used tax minimization within our complex system so well.

The government will look to Treasury to provide definitive input in this debate. Treasury takes its role as the guardian of fiscal probity very seriously, and is understandably reluctant to endorse what might be seen as ‘experiments’ on the economy. But this natural conservatism can go too far. When one forecasts with extreme conservatism about the likely growth rate, places only a moderate rate of ‘sustainable growth’, makes no allowance for ‘second round’ positive effects of tax cuts and embraces a view that the budget must in virtually all circumstances remain in surplus, one is indeed inhibited. It is like blindfolding and shackling a man, placing him in a small but weighted box and throwing him into the river. A Houdini might escape, but most will not.

Clearly we need to proceed at a measured rate so as not to overheat the economy. But what is needed is great clarity about the end point, so that measured implementation can be planned. This end point is simple:

- A top marginal rate of income tax of 30 per cent, with corresponding cuts along the schedule, with capital gains taxed at the same rates as normal incomes.
- A company tax rate of 30 per cent, maintaining full dividend imputation for domestic owners of shares.
- Abolish most if not all tax deductions—retaining depreciation allowances in particular as well as tax deductibility for loan interest capped at income from that investment.
- Abolish most if not all special payments to ‘disadvantaged’ individuals and groups, substantially reducing the tax-welfare ‘churn’ in the process.
- Introduce either a negative income tax, including a base tax-free allowance for every Australian, or earned tax credits to eliminate the problem of very high effective marginal tax rates for welfare beneficiaries—the principle being that no-one should be faced with an effective marginal tax rate above 30 per cent.
- Greatly simplify the tax act, which all the above changes would make possible.

Australia’s economists generally agree on three propositions about unemploy-ment. The first is that the problem is far worse than suggested by the current official statistics, and the damage to the fabric of Australian society correspondingly greater. The second is that most of the solution lies in radical reform of the tax and welfare system. The third is that a carefully constructed programme of phased reforms would make Australia one of the most dynamic economies in the world, without creating a risk of overheating or other unfavourable side-effects.

Both sides of politics agree on the nature of these reforms. It is now up to an ambitious government to implement them.

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Liberalism, individualism and heavy metal

Andrew Kemp

“But the fact is unless you are a politician, shut up. What do they [musicians] know about politics? (With a southern accent) Oh well I’m gonna vote for a guy that gonna raise taxes on the fucking rich. You stupid twat. You are in the upper income bracket in America, you are gonna get taxed. And when small business owners get taxed, jobs are lost.” – Dave Mustaine, frontman of Megadeth, Heavy Metal spokesperson for sound taxation policy (apparently).

Heavy Metal is a curious music. Largely dismissed as nothing more than distorted drivel, it remains a black smudge on the grandiose landscape of musical culture. It is seen as immature by many, repulsive by a few, and just downright horrible by most. All of these judgements are in their own way correct. There is nothing creatively or musically remarkable about the genre— with one exception. In a time when popular music appears strongly aligned with the Left, Heavy Metal finds itself as a hotbed of classical liberals. Some things in life, it would seem, just don’t make sense.

Leftism in Popular Music
In 2004, then Presidential-aspirant Howard Dean graced the cover of popular music’s seminal journal, Rolling Stone. ‘The next few weeks will determine whether or not the year’s most extraordinary political story has legs’, began the article. ‘Unlike most politicians, who work hard to seem like your best friend, Dean … projects a refreshing quality of seeming not to really care if you like him.’ Rolling Stone was more accurate than it thought, and Dean bombed out of the presidential candidacy accordingly. Likewise, the Australian edition of Rolling Stone would interview Mark Latham and Peter Garrett during the last Federal election. The Age would write, ‘Opposition Leader Mark Latham’s appearance on the cover of this month’s Rolling Stone … is another reminder that rock can be a powerful platform for politicians’. Latham would go on to lose the Federal election and quit politics altogether.

It is not that Rolling Stone has a remarkable ability in getting it wrong on almost everything—although this is definitely a point worth exploring on another day—but it is that a leftist culture seems to pervade the popular music establishment.

In 2004, three compilation albums were released, Rock Against Bush, Vols 1 & 2, and the Australian equivalent, Rock Against Howard. Both were equally as effective in the sense that they both equally failed. What was more significant, however, and somewhat disappointing, was the number of popular musicians who offered their services to the project. In the United States, anti-Bush sentiment would eventually culminate in a nation-wide tour, aptly titled ‘Vote For Change’.

Heavy Metal and Individualism
But while soft-rocker Bruce Springsteen and grunge-rockers Pearl Jam toured the nation trying to convince voters of their political righteousness, others chose to stay at home, unimpressed. ‘If you’re listening to a rock star in order to get your information on who to vote for, you’re a bigger moron than they are’, insists Alice Cooper. ‘Why are we rock stars? Because we’re morons. We sleep all day, we play music at night and very rarely do we sit around read-

Andrew Kemp

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self-denial are scorned as the values of the timid, the dull, and the humorless. Ayn Rand would be proud of Arnett’s conclusion. And there is ample evidence to support Arnett’s claim.

In 1974, the world welcomed Rush, a Canadian progressive rock trio that would draw its inspiration from Ayn Rand’s philosophy to produce an immense catalogue of songs that detailed the virtues of individualism and the evils of collectivization. The opening track from their sophomore effort Fly By Night is titled ‘Anthem’, obviously drawn from Rand’s own novel, which contains the lyrics: 

Well, I know they’ve always told you
Selfishness was wrong
Yet it was for me, not you, I came to write this song

Rush would go on to become one of the most influential musical acts of their time, the most notable Heavy Metal band to cite their influence being Metallica. The theme of self-empowerment equipped with a ‘Carpe Diem’ mantra can be found in countless Heavy Metal songs.

Although individualism should be a prominent focus when looking at Heavy Metal, critics of the genre identified a much more sinister protagonist as the centre of lyrical discussion.

Milton to Maiden

In the Spring of 1985, the Parents’ Music Resource Centre (PMRC) was formed with the intention of protecting America’s youth from music that was deemed inappropriate and harmful. The PMRC would produce a list of 15 songs that promoted or glorified violence, sex, drugs and the devil. Heavy Metal featured prominently, and indeed, most songs from the list actually were offensive, albeit tunes that only a minority of listeners would hear (the market for extreme vulgarity isn’t terribly large). Perhaps the most interesting inclusion was the Twisted Sister song ‘We’re Not Gonna Take It’, a song more concerned about retaining individual liberty than beating up your next door neighbour.

In response to the public perception that Heavy Metal was bringing violence and satanic glorification into the family home, a Christian Metal band emerged on the scene: Stryper. ‘So many bands give the devil all the glory—it's hard to understand’, sings Michael Sweet in the song ‘From Wrong to Right’.

But does the devil get all the glory? John Milton received similar criticism for his portrayal of Satan in Paradise Lost. William Blake would famously write that Milton was ‘of the Devil’s party without knowing it’. Likewise, British rockers Iron Maiden would find themselves at the receiving end of attacks by several Christian groups, following their 1982 release The Number of the Beast. ‘They obviously hadn’t read the lyrics’, says bassist Steve Harris. ‘They just wanted to believe all that rubbish about us being Satanists.’ Perhaps if the Christian pressure groups had continued to listen to the Maiden catalogue, they may have been surprised to find several songs supporting Christianity, such as fan favourites ‘Sign of the Cross’ and ‘Judgement of Heaven’. For the literary folk, Iron Maiden’s 14-minute epic ‘Rime of the Ancient Mariner’, a rock version of the Coleridge poem, is equally as fascinating.

The influence of literature in Heavy Metal is perhaps another indicator of the values encompassed in the genre. Though not conservative in a political sense, many Heavy Metal artists appear to be drawn towards topics that encourage fundamental Western values.

Individualism in niche genres

Individualist and liberal thought is not restricted to Heavy Metal, of course. Many niche genres, dismissed for their sonic or lyrical abrasiveness by popular media and culture, can feature artists who extol these values. Punk rock may be forever connected with the Sex Pistols ‘Anarchy in the UK’, or the Joy Division’s neo-nazi motif, but much ‘anarchism’ in punk music is actually misinterpreted libertarianism.

The hardcore punk band Corporate Avenger advocate ‘personal responsibility and compassion for others’. The title track from their album Taxes are Stealing contains the lyrics:

The IRS was not there the other day when I was unloading truck after truck into that hot fucking warehouse
The IRS was not there the other day when I was pulling weeds in the fucking hot sun
The IRS was not there when I needed money to pay my bills, but they sure as fuck were there on Friday to take almost half my pay again and again and again again!

Hardcore Punk bands can be offensive—a staple of the genre is the strength of their venom—but it would be a mistake to assume that they are always pushing hard-Left values upon their audience. The contribution of these bands to liberal or conservative political support does not deserve to be dismissed because of their niche appeal.

Similarly, in the elusive genre of Heavy Metal, the fundamental values of individualism, liberty and freedom are being promoted by the very groups that are slammed for defying such values.

As Noel Coward wrote, ‘Strange how potent cheap music is’.

A compassionate conservative?
Fear of txt

Hugh Tobin

‘Come on down to Cronulla this weekend to take revenge. This Sunday every Aussie in the shire get down to North Cronulla to support the Leb and wog bashing day…’

—SMS circulated before the Cronulla riots

Stranded at sea off the coast of Bali in February 2001, Rebecca Fyfe sent her boyfriend in England a text message asking for help. ‘Call Falmouth Coastguard, we need help—SOS’. As her group of 14 bailed water from their sinking vessel, Rebecca’s boyfriend contacted the UK Coastguard who organized for an Indonesian gunboat to rescue the tourists. Rebecca and her friends were no doubt more than happy when the gunboat rescued them—even though it was a day late after being held up by bad weather. In 2003, Abdel Salam Mohammad Darwash was not so patient when his wife was late to meet him, sending her a text message that read ‘Why are you late? You are divorced.’ A Dubai court later ruled that the divorce was valid.

By the end of this year, people around the world will have sent more than 500 billion text messages. Divorce by SMS is just one example of a new wave of ‘anti-social’ messages and behaviours being facilitated by text messages. Terrorists are using text messages to organize attacks and detonate bombs. Strangers are text messaging each other and then meeting for unprotected sex in public parks. Young hooligans are loitering in streets on Saturday nights waiting for text messages that notify them of parties they can crash. Meanwhile, people are being textually harassed and some text message bullying amongst teenagers has been linked to severe depression and, in at least one case, suicide.

In December last year, it even seemed that SMS was to blame for the violence in Cronulla. ‘SMS fuels race riots’ stated the headline of a Sydney Morning Herald piece. The NSW Government responded to the Cronulla riots by introducing powers for police to search people and confiscate their phones without a warrant, similar to laws allowing police to search for weapons such as knives and guns. This was an unnecessary knee-jerk reaction to events that were fuelled by racism, not by technology. Sure, people circulated text messages in the lead-up to the Cronulla riots which urged racial attacks, but they also used talkback radio, the Internet, telephones and e-mails. It was not SMS which created the strong racist feelings in the community, it merely communicated them.

It might be in the national interest to pass laws allowing police to confiscate mobile phones from at least one member of the Australian cricket team.

It is interesting to look back at history and consider that some of the technologies we now take for granted were initially treated with suspicion. Trains were originally speculated to cause nervous disorders, and Thomas Edison and others spent considerable time trying to conquer the public’s initial fear of electricity. Many people originally believed that if a household switch was left on, for example, that electricity would leak out of the empty socket and be dangerous. It will be interesting to see in a hundred years how we look back on a 2004 UK report which blamed the growth of text messaging for an increase in the divorce rate, because it supposedly made it easier for people to have affairs. Or the claim in the Indian Times earlier this year that the intrusion of the mobile phone into the bedroom is interfering with the frequency with which couples have sex.

Survey results such as these are more often than not the product of technophobia. There seems to be a misguided fear that with every invention we move a step closer to the enslavement of humans to technology, as if freedom and technology cannot co-exist. Technological advances, in themselves, do not result in more dangerous social problems. We should not fear more advanced technologies, but only those who would try to restrain their use.

Although it might be in the national interest to pass laws allowing police to search and confiscate mobile phones from at least one member of the Australian cricket team, for the rest of us we have us much to fear from the text message as the train or the electric switch. From sending patients reminders to take their medication, to police SMS bombing stolen phones, to electronic voting, the possibilities for this technology are only just being realized.

Hugh Tobin is a researcher with the Institute of Public Affairs.

IPA
Valuing Consumer Products by the Time Spent Using Them: An Application to the Internet
By Austan Goolsbee & Peter J. Klenow
For some goods, the main cost of buying the product is not the price but rather the time it takes to use them. Only about 0.2 per cent of consumer spending in the US, for example, was devoted to Internet access in 2004, yet time-use data indicate that people spend around 10 per cent of their entire leisure time going online. For such goods, estimating price elasticities with expenditure data can be difficult and, therefore, estimated welfare gains are highly uncertain.

Based on expenditure and time-use data and our elasticity estimate, this paper calculates that the consumer surplus from the Internet may be around 2 per cent of full-income, or several thousand dollars per user. This is an order of magnitude larger than what one obtains from a back-of-the-envelope calculation using data from expenditures.

http://www.nber.org/papers/w11995

Ugly Criminals (working paper)
By Naci Mocan & Erdal Tekin
Using data from three waves of Add Health, this paper finds that being very attractive reduces a young adult’s (ages 18-26) propensity for criminal activity and that being unattractive increases it for a number of crimes, ranging from burglary to selling drugs. A variety of tests demonstrates that this result is not because beauty is acting as a proxy for socio-economic status. Being very attractive is also positively associated with adult vocabulary test scores, which suggests the possibility that beauty may have an impact on human capital formation.

http://papers.nber.org/papers/w12019

Healthy Competition: What’s Holding Back Health Care and How to Free It
By Michael F. Cannon and Michael D. Tanner
America’s healthcare system is at a crossroads, faced with rising costs, quality concerns, and a lack of patient control. Some blame market forces. Yet many troubles can be traced directly to pervasive government influence: entitlements, tax laws and costly regulations. Consumer choice and competition deliver higher quality and lower prices in other areas of the economy. The authors conclude that removing restrictions can do the same for health care.

http://cato.org/pubs/books/books.html

Let Them Eat Precaution: How Politics Is Undermining the Genetic Revolution in Agriculture
Edited by Jon Entine
The genetic revolution has offered more promise than substance, except in agriculture, where it has brought profound benefits to farmers and consumers for more than a decade. More nutritious food is now produced with fewer environmental costs because genetically modified crops require almost no pesticides. Vitamin-enhanced crops and foods are helping to reduce malnutrition in parts of the developing world, and a wave of biopharmaceuticals is being developed. Yet, for all its achievements and promise, agricultural biotechnology is under intense fire from advocacy groups warning of ‘Frankenfoods’ and fanning fears of a ‘corporate takeover’ of agriculture by biotech firms.


Tough Love for Schools: Essays on Competition, Accountability, and Excellence
By Frederick M. Hess
It’s hard to find anyone who will forthrightly declare that teachers are no more saintly than anyone else, that poor schools should be closed and lousy teachers should be fired, that philanthropy may sometimes do more harm than good, that teaching experience is not essential to being a school principal, that schools should be more efficient and cost-effective, or that profit-driven competition might be good for public education.


Just Trade: The Moral Imperative of Eliminating Barriers to Trade
By Julian Morris
Voluntary exchange between individuals is inherently good, because:
- Each and every trade directly enhances the welfare of both participants;
- Cumulatively, such trades drive entrepreneurial processes that lead to more, better and cheaper products being available and increase productivity;
- In combination, these result in sustained development, leading to continuous improvements in human welfare.

Restrictions on trade are immoral
- They lead to less sustainable or to unsustainable development;
- They raise the costs of goods, harming especially the poorest;
- They act as barriers to employment and entrepreneurship.

It is estimated that the removal of all tariffs and quotas on goods and services would increase World GDP by over 1 trillion dollars annually.

http://www.policynetwork.net/main/content.php?content_id=39

AROUND THE TANKS

http://papers.nber.org/papers/w12019

http://www.nber.org/papers/w11995

http://cato.org/pubs/books/books.html


http://www.policynetwork.net/main/content.php?content_id=39
Andrew Kemp reviews
His Excellency George Washington
by Joseph J. Ellis
(Knopf, 2004, 352 pages)

‘It seemed to me that Benjamin Franklin was wiser than Wash-ington; Alexander Hamilton was more brilliant; John Adams better read; Thomas Jefferson was more intellectually sophisticated; James Madison was more politically astute. Yet each and all of these prominent figures acknowledged that Washington was their un-questioned superior.’

Our first glimpse of Washington is usually through the tale of the cherry tree (‘I cannot tell a lie, I did cut it with my little hatcher’). This, of course, never happened. Despite its fabrication, however, it comes extraordinarily close to depicting the essence of Washington’s character. His Excellency is itself a tale, a true one, of a man with remarkable judgement and unmatched leadership.

It is Ellis’s analysis of such leadership that will give the book relevance for many readers, but it is the origin of Washington’s qualities that will make His Excellency such an important contribution to America’s history. Ellis has not only produced, in his own words, ‘a fresh portrait tightly focused on Wash-ington’s character’, but a blueprint for leadership. A Prince for nice guys.

Unlike the hypothetical Prince, however, Washington lived and breathed as we do today. Ellis places great weight on Washington’s lack of education—the first President only received the equivalent of our grade-schooling. Ellis argues that his judgements during the key moments of American history ‘derived in part from the fact that his mind was uncluttered with sophisticated intellectual preconceptions’.

Unlike Jefferson, Washington knew that the French Revolution would end in blood. And unlike several of his revolutionary brothers, Washington knew that ‘nations were driven by interests rather than ideals’. In a prophetic letter to his friend Lafayette, Washington would predict that ‘however unimportant America may be considered at present, there will assuredly come a day when this country will have some weight in the scale of Empires’.

Where exactly this quality of judgement derived from has been much debated by historians. Although we can never conclusively understand the psychology of Washington, Ellis has nonetheless been able to trace particular experiences that would have shaped his beliefs. The failure of the Continental Congress to provide sufficient resources to Washington during the War of Independece seemed to have stemmed his determination to create a legitimate central government. His commercial relations with the British Merchant Robert Cary meant that his beloved Mount Vernon would be economically dictated to by a company thousands of miles away. The increasing failure of his tobacco crops to provide a sufficient income saw him switch to the production of wheat, as opposed to those who simply demanded higher prices (there was no ‘fair trade’ 200 years ago). Washington’s grasp of simple economics allowed him to be one of few who would die without debt.

Such ‘rock-ribbed’ realism would become the backbone to Washington’s decisions. The Jay Treaty, a highly controversial agreement with the British that would remove redcoats from the frontier and improve commercial relations with Britain (an act that the newly liberated populace would regard as semi-betrayal) is such an example. This would pale by comparison, of course, to the monster predicament of American slavery, ‘the one issue with the political potential to destroy the republican experiment in its infancy’. Washington’s decision to halt the slavery debate until 1808 could be seen as a moral failure by contemporary historians. But Ellis stands strong on the grounds that Washington had one priority in sight: Cement the nationhood of the United States of America.

Had Machiavelli been around to witness the ascent of Washington, perhaps The Prince would read a little differently today. He may have noticed, for instance, that the power of an individual can long exceed death. Washington’s vision lingers on because it was a shared vision, moulded from real life experiences, and not simply the ambitions of one man. As Ellis explains:

Unlike Julius Caesar and Oliver Cromwell before him, and Na-poleon, Lenin, and Mao after him, he understood that greater glory resided in posterity’s judgement. If you aspire to live forever in the memory of future generations, you must demonstrate the ultimate self-confidence to leave the final judgement to them. And he did.
How to win friends and influence people
also be a premier

It was bound to happen. Although it must have been irresistible to publish an anthology about the royal flush of ALP State leaders, it’s surely a book with a great chance of becoming very dated, very quickly. And so it was, for two of the premiers featured in *Yes, Premier* have already exited: Bob Carr and, far more unexpectedly, Geoff Gallop.

The essays in *Yes, Premier* focus on the leaders who have been at the helm in each Australian State and Territory since 2002 when, for the first time since Federation, each government has been held by the ALP. It examines how each premier or chief minister rose to power, and their political ‘style’. It also provides personal details and biography.

Ironically, given his recent departure, the chapter on Geoff Gallop highlights the narrow professional experience of each office holder, before entering politics. This is most starkly drawn in one of the book’s useful tables, which contrasts each premier’s and chief minister’s résumé. Here we see three journalists (Bob Carr, Mike Rann and Clare Martin) four unionists (Carr once again, along with Steve Bracks, Paul Lennon and Jim Bacon), and three political staffers (Bracks and Rann, as well as Jon Stanhope). There’s no significant business or private-sector experience, and minimal academic achievement. Geoff Gallop, whose qualifications include a D. Phil. from UWA and an MA from Oxford, is the one notable exception.

*Yes, Premier* has in several ways drawn out the similarities and differences between the premiers and chief ministers—such as the tendency of many to emerge after long periods in opposition, or initial terms of minority government. For example, despite the sometimes contrary tendencies of contemporary voters, many of the State and Territory Labor parties have transformed initial uncertainty into majority government and consecutive election wins. Usefully, Wanna and Williams continually ask to what extent Labor’s good fortune in each State and Territory has been assisted by the Coalition’s domination at federal level.

*Yes, Premier* is well researched using contemporary primary sources. It’s not clear though that the conclusions reached in the final chapter, ‘Leaders and the leadership challenge’, are supported by the preceding chapters. Certainly the featured leaders have similar trajectories, and the argument that crisis-management has become a political norm has merit. But it’s less sustainable to argue that eight features, identified by Wanna and Williams, comprise a ‘new form of state/territory leadership’. While some of these have clear application (such as ‘embracing accountability’, in part as a response to the cavalier approach to economic management that blighted many ALP governments of the 1980s), others are far less obvious.

Watching the current internal conflicts of the Victorian ALP as it administers State and Federal pre-selections, it is hard to argue that machine politics have declined, and that relative independence has been achieved from the traditional Labor power base, the union movement. This section of the book seems a long way removed from the reality of Labor politics that is being played out today in a relatively public fashion, for all to see.

In other ways, it’s an idealized view of democratic processes as seen in State politics (‘leaders have initiated and championed extensive processes of community consultation and participation, as part of the new politics of engagement more seriously with citizens’). Several of Wanna and Williams’ eight features could equally apply to federal politics: it’s arguable that John Howard shows ‘cautious pragmatism’, ‘anticipatory and receptive leadership’ and, most of all, ‘the cultivation of ordinary populism’.

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*Margaret Fitzherbert is the author of* Liberal Women: Federation to 1949

**Yes, Premier: Labor leadership in Australia’s States and Territories**
John Wanna & Paul Williams (eds.) UNSW Press, 2005, 276 pages

*How to win friends and influence people also be a premier*
For a mere $75 billion per year, Hugh Stretton knows how an Australian government can easily provide large doses of addictive social engineering. Stretton proposes a suite of policies to do ‘whatever it takes in our changing historical conditions, by old and new means, to keep Australia fair. Contrive full and shared employment … Continue women’s progress to genuine equality at home and at work … reduce the scale of our inequalities’.

The first chapter in Stretton’s book is ‘Leaders’, with a fulsome tribute to ‘Nugget’ Coombs in his capacity as Keynesian social engineer and benefactor of the Aborigines. This conveniently sums up a number of the problems with the book.

As far as economic policy goes, his solutions are massively out of date. The bubble of Keynesian demand management has collapsed, leaving the problem of explaining how anyone ever thought that inflation could be traded off against unemployment, without addressing the fundamentals of productivity and the abuse of trade union power.

Underpinning Stretton’s policy proposals is the assumption that the role of government is to channel resources from one group to another group according to the preferences of the policy-maker—instead of allowing the maximum scope for choice by people to make their own plans to achieve their desired lifestyles.

Stretton is so captivated by the idea of fairness (usually called ‘social justice’) that he has been blinded to the most obvious dangers of the unintended consequences that arise from the perverse incentives generated by schemes such as the proposed parent wage (a minimum wage for anyone who stays home to look after a child up to the age of seven). One can envisage communities of single parents, suffering from the same collapse that has occurred in tribal communities—circumstances which presumably inspired this book to be written in the first place.

The arguments for this massive programme appear at first sight to be well organized and backed by a prodigious display of statistics. Stretton has been reading and writing for over 60 years of professional life and the bold sweep of his vision tends to distract attention from the errors and muddled thinking in the details.

Stretton projects an image of fairness with a chapter ‘How not to argue’ (refrain from parody when presenting the arguments of opponents), but he is too committed to his agenda to be diverted even to consider small government or deregulatory options. His policy prescriptions veer off in the direction of big government interventions like a heavily biased bowling ball. For example, his section on the environment would be improved by a realization of the way that property rights and market forces can promote conservation, rather then the reverse as he appears to believe. This tendency to selective vision is exemplified by his uncritical acceptance of the deeply-flawed research of Michael Pusey.

The chapter on ‘National Objectives’ urges essentially Scandinavian levels of intervention and cradle-to-grave welfare, then a chapter on ‘Work’ demands full employment. ‘Every consideration of economy and humanity should drive us to see that there is paid work for everyone who wants it’.

Stretton’s attitude toward labour policy is particularly blind. Instead of engaging with the free-market case for the elimination of minimum wages, he simply dismisses such policies out of hand. ‘[Some] oppose most minimum wage requirements, claiming falsely that they always reduce employment and economic growth (opposite effects are just as frequent).’ No evidence is cited and he proceeds to consider the array of interventions that might ‘retain particular industries or limit foreign ownership of them’.

He writes that we have ‘long had the world’s best institutions for debat-
Underpinning Stretton’s policy proposals is the assumption that the role of government is to channel resources from one group to another group according to the preferences of the policy-maker.

ing and determining the wages and conditions of paid work’ (p.113), forgetting that the wage-fixing system was an immediate cause of mass unemployment in the Great Depression, when adjustments to award wages were out of proportion to other market prices. Similarly, the Aboriginal stockworkers in the Northern Territory were swept out of employment by an ‘equal wage’ case, decided by distant judicial figures against the advice provided by people who knew the industry. Examples of misguided wage-fixing in twentieth-century Australia are easy to come by.

Education is another area where Stretton appears to have hugely inflated expectations of the gains to be made by increased government spending. He would have every public school funded to the level of the non-Catholic private schools. Unfortunately, the shortcomings of public education have next to nothing to do with funding. During the last three decades, the quality of public education declined precipitously while funding increased (in real terms per capita). This decline has been caused by a range of policies and cultural factors, not least the infamously militant teachers unions. No account of public education in recent times is complete without paying attention to the way that the teachers unions resisted or sabotaged efforts to obtain accountability and quality in public schools. Stretton provides no strategy to address this key problem.

As to the universities, he has legitimate concerns about the incursion of the micro-managers, but it should be noted that the decline of the universities is not a recent event. They were subverted by excessively rapid growth and the politicization of the social sciences and the humanities, both of which happened on his watch—or at least the watch of his generation of senior academics, planners and administrators.

The wide range of policies canvassed in the book presents a challenge to readers and reviewers who have not been working actively on a similarly wide front. For that reason, I will refrain from comment on his suggestions for superannuation and his speculation on the many thousands of people who might be required in the schools, hospitals and the building industry to make good his programme. No doubt his ruminations about a form of fiat money to be issued by the Commonwealth for certified public works will raise a storm of protest from some quarters. It appears that he has undimmed confidence in the potential for Keynesian demand management to handle the inflationary pressures that his schemes will generate.

At the end of the book he returns to the theme of full employment because unemployment is the single most important contributing factor in poverty and disadvantage. It may help to shelve some disagreements for a moment and take a stand on this common ground—the need to ensure something approaching full employment of all those who are able to work. This is where welfare, wage-fixing and taxation policies need to work together, with the elimination of minimum wages so that nobody is priced out of a job, and a reduction in the de facto tax rate when a welfare recipient takes up paid work. Progress in this area could achieve major gains that Stretton would applaud—that is, major improvements in the prospects of the least affluent people. Unlike his pie-in-the-sky scenario, this policy mix involves virtually no government outlays. This looks like the best kind of win/win outcome and one hopes that Stretton and his colleagues might revisit some of their core beliefs and especially consider the way that full employment is rendered illegal by minimum wage regulations.
Tom Quirk reviews
Postwar – A history of Europe since 1945
By Tony Judt
(Penguin, 2005, 608 pages)

This book is a most remarkable and readable history. Tony Judt has woven a rich, 800-page tapestry of European recovery with an overall pattern of leaders successfully avoiding the mistakes of the interwar years, binding their countries together first by expanded intra-European trading, then to the technocratically conceived European Community and so to the present European Union.

Like any good tapestry, there are asymmetries and errors in the pattern as each country develops. The pile is deep with colour—The Who, the Sex Pistols, ‘brutalism’ in architecture, the cinema and the intelligentsia all make their contribution, as do the dry facts of population and economic statistics. In short—or long—the book is a ‘tour d’horizon’ and a fascinating read.

Judt begins at the end of 30 years of ‘civil war’ amongst the nominally Christian states of Europe, where some 60 million citizens met their death as soldiers or civilians. It is extraordinary to those of us born too young to experience these events that societies could be so driven by their leaders.

The central countries are France and Germany, both starting with a troubled body politic. For the Germans, how to deal with the Nazi legacy? The immediate post-War generation ‘never mentioned the war’. It was left to the next generation to confront the issue, as Germany became the economic powerhouse of Europe.

For the French, the Vichy regime with Nazi collaboration was treated similarly. Paris became the intellectual centre of Europe, and for Jean-Paul Sartre and his colleagues, socialism had historical inevitability.

The remarkable growth of Europe was propelled by the post-War baby boom. This generation grew to adulthood in the 1960s. They were better educated than their parents, had their own independent income and spent it on clothes and their own culture of music and film. The increasing student numbers in the ’60s put great pressure on universities, which expanded mightily. It was a time of student rebellion which led Isaiah Berlin to write, ‘The rebellion of the unrepentant bourgeois against the complacent and oppressive proletariat is one of the queerest phenomena of our time’.

Perhaps the most striking political events had started in the 1956 Hungarian uprising and culminated in the Gorbachev perestroika of 1987. The collapse of the Soviet empire and the Soviet Union finally occurred in a peaceful manner, something that could not have been accomplished from the outside. The evidence of economic and political failure destroyed the belief of the intelligentsia that socialism was inevitable. Hardliners in France held on, as did those in Eastern Europe who hoped the collapse of the Soviet Empire would permit the birth of true socialism. They were ignored.

Europeans accomplished the European rebirth. European culture was protected. The French sheltered their film industry and, more particularly, their language. But as the European Union expanded, the role of the French language ceased to be central and English became the universal language of second choice.

This history also touches on the loss of three great empires: the British, French and Russian. The British had some practice at losing parts of their empire, but were greatly troubled by Northern Ireland. The French had the trauma of North Africa, and the Russians suffered the most rapid collapse. These countries, as middle ranking powers, turned back to Europe, with Britain and Russia on the edges and the French at the centre again, as in the nineteenth century.

These events occurred on the far side of the planet and we did not experience them directly. However the events did shape Australia with the waves of immigration that brought our great post-War expansion in people, culture and achievements.

This European story has been brilliantly told. It will be told many times. The Polish saying, ‘The future is certain, only the past is unpredictable’ will no doubt apply.

IPA
The Bureaucracy Monster
In 1985, British and Scottish officials spent time considering how best to protect the Loch Ness Monster from poachers should it surface, according to newly-released files obtained through the Freedom of Information Act. An official at the Department of Agriculture and Fisheries wrote, ‘Unfortunately, Nessie is not a salmon and would not appear to qualify as a freshwater fish under the Salmon and Fisheries Protection (Scotland) Act 1951’. After an exchange of memos between departments, it was decided that Nessie would be protected under the 1981 Wildlife and Countryside Act. This made it an offence to shoot, snap or blow up Nessie.

Loch Ness Elephant
Scottish palaeontologist Neil Clark from Glasgow University believes that he has solved the mystery of the Loch Ness Monster, claiming that it is nothing more than an elephant. During the 1930s when the first sightings of ‘Nessie’ were made, circus fairs visiting Inverness stopped on the banks of Loch Ness to allow their animals to rest. ‘When their elephants swam in the loch, only the trunk and two humps could be seen: the first hump being the top of the head and the second being the back of the animal.’ This description matches early eye-witness accounts of a grey monster with a long neck and humped back.

Lukewarm Legislation
A State senator in Missouri has proposed forcing liquor stores to sell warm beer in a bid to reduce the occurrence of drink-driving. Senator Bill Alter has introduced a bill which, if passed, will give authorities the power to strip liquor licences from grocery and convenience stores who sell beer colder than 15 degrees Celsius. The theory behind the ban is that it will be less tempting for drivers to pop open a newly purchased beer if it is warm. According to Alter, ‘The only reason why beer would need to be cold is so that it can be consumed right away’. A better solution would be to ban driving. Not only would this reduce the drink-driving rate even further, but it would also encourage more exercise to help battle the current obesity epidemic.

Seeking Experienced Vandals
The municipal council in Amsterdam wants the city’s best vandals to try and wreck prototypes of its new subway trains. Amsterdam traffic councillor Mark van der Horst wants to take Amsterdam hooligans from the street and have them trash the trains so that the City can make an informed choice about which trains are the least vulnerable to attacks. According to van der Horst, the trains must be carefully tested because Amsterdam hooligans are amongst the worst in the world. ‘Our new Amsterdam subway must be absolutely Amsterdam-idiot-proof’, he said.

Shower-hacking
The US Federal Energy Policy Act of 1992 dictates that ‘all faucet fixtures manufactured in the United States restrict maximum water flow at or below 2.5 gallons’. Consequently, since 1992, Americans have been cursed with tepid, lifeless showers bereft of generous water flows and therapeutic pleasure. All showerheads sold in the United States must adhere to this regulation. But entrepreneurs have now cleverly realized that this applies on a per-showerhead basis. Hence the ‘Nautilus II Chrome’, a three-headed shower fixture that recreates the experience of showering in a regulation-free utopia. Also growing more common: shower-hacking, where consumers customize their shower to avoid pesky laws and double their waterflow.

Raven’ Crazy
A group of six ravens at the Tower of London has been moved indoors in order to prevent the destruction of the English Kingdom. King Charles II decreed in the seventeenth century that six ravens must always remain at the fortress, and legend has it that if the ravens leave the fortress, the White Tower will crumble and the Kingdom of England will fall. The Tower’s raven master, Derrick Coyle, decided to move the ravens to protect them from the threat of bird ‘flu. ‘Although we don’t like having to bring the Tower ravens inside, we believe it is the safest thing to do for their own protection’, he said.

Property Boom
A computer error that led to a house in Indiana being wrongly valued at $400 million has led to budget shortfalls and possible layoffs. The correct value of the house is $121,900 and appears to have been accidentally changed by an outside user of the County’s computer system. In one year, the property taxes on the house rose from $1,500 to $8 million. Despite the mistake being identified in one department, the value ended up on documents that were used to calculate tax rates. Government taxing units had to return $3.1 million of tax money. Worst hit was Valparaiso which returned $2.7 million, resulting in a $200,000 budget shortfall and city losses of $900,000.

Now is a good time to travel
According to a British Government report, the right to travel when and where we please will be severely eroded over the next 50 years due to the shortage of cheap oil and environmental concerns. The government science think-tank Foresight concluded that the growing demand for greater personal mobility is unsustainable and based on false notions. ‘Every journey will have to be justified, and face-to-face contact with colleagues, friends and relatives will increasingly become a luxury, with most meetings taking place via three-dimensional telepresence.’ The report proposes making people pay the true cost of their journeys by giving them a carbon allowance which would apply to all activities, not simply travel.