From the editor

Chris Berg

To commemorate the sixtieth year of the IPA Review, the IPA will now publish the IPA Review in full colour. We can do this at almost no extra cost, not because of the government or government regulations, but because of competition and technology.

This magazine, like many other niche publications, is highly sensitive to minor changes in production and printing costs, subscription base, and newsstand sales. Significant technological developments in printing over the last half century have allowed us to now print in full colour. The dramatic changes in telecommunications technologies have obscured the parallel changes in the printing industry.

For six decades now the IPA Review has been producing its scintillating political, economic and social commentary using a variety of production techniques. The first two editions, March and June 1947, were produced using one spot colour, plus black. Spot colours are generated by a single ink—in this case, the dark red of the IPA logo—on a separate printing plate, the thin sheet of metal carrying the image of each page.

But after those first two editions, and until 1985, the IPA Review was printed in sombre black and white.

For the decade between 1985 and 1995, the magazine moved to full colour, generated by a four-colour process. This involves four coloured ink plates—cyan, magenta, yellow and black—which are printed semi-transparently over each other. However, to reduce costs, the review was returned to featuring one-spot colour inside its pages.

We now once again bring you full colour. Modern innovations have lowered the cost of production dramatically. Layout is done entirely on a computer, and the computer processing power available in 2007 makes the task relatively painless.

New stock photography websites open up the market for imagery, giving younger amateur and semi-professional photographers experience and income, as well as small scale magazines like the IPA Review enough flexibility (read: cheaper photos) to increase the graphical content of their layouts.

Faster and faster internet access means that once the IPA Review has been prepared for printing, it can be immediately uploaded to the printer. And as the amount of data storage available to individuals and small organisations increases, so does the producers' capability to work in high, print quality, resolutions. This edition of the IPA Review has utilised more than 1.2 gigabytes of pictures, graphics and text—the programs used to produce it are even larger.

Once the completed magazine—in three single files—is uploaded to the printer, the increasingly digitised presses take control. For instance, pages are printed directly from the computer to the printing plate, giving a sharper image than previous methods which relied more on human judgements.

These advantages work to the benefit of small, targeted magazines. There have been parallel developments in the production of publications with large print runs, like newspapers.

Capitalism is not celebrated enough. It has been the largely unregulated nature of print and digital technologies that has allowed these products to come to market. In this edition of the IPA Review, John Humphreys provides a beginner’s guide to the school of economic thought that embraces most wholeheartedly the dynamism of an open market economy, and in a companion piece, D.W. MacKenzie applies those lessons to the Bill Murray classic, Groundhog Day.

Sinclair Davidson and Alex Robson look at the Intergovernmental Panel on Climate Change, and try to figure out what they mean by ‘almost’ certain. Tim Wilson looks at the pharmaceutical industry and Andrew Norton looks at proposals to make us happy that don’t involve the pharmaceutical industry.

There are fifty-six colour pages in this edition of the IPA Review. In 1947, there were twenty-five with one spot colour. There have been massive changes in Australia and the world since the late 1940s, but it’s worth sometimes reminding ourselves of the small ones.
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Those with eyes to see...

It seems that even the most obvious things can surprise people. An example of this comes in the form of the reaction to the recent publication of a book by left-wing British journalist Nick Cohen. What’s Left? How the liberals lost their way examines the way in which the Left is now more likely to support dictatorship and tyranny than be on the side of liberal human rights. Or as one review put it ‘the book dissects the oddity—and the scandal—of how segments of the Left, in their willingness to discern progressive qualities in the most reactionary causes, went over to the other side of the political divide.’

So what’s new? It would require someone to be completely ignorant of a hundred years of history to believe that Cohen is providing some sort of new political insight. Since when hasn’t the Left sided with dictatorship and tyranny? From Lenin, to Stalin, to Mao, to Pol Pot et al there’s not much of the Left’s record to be proud of. If the definition of ‘the Left’ was widened just a little bit to include those who acquiesced to the more radical aims of the French Revolution the case study would extend back not just one century, but two. The ‘Terror’ of 1793 wasn’t much different to Stalin’s ‘Great Purge’ of the 1930s. Only the scale of death altered. During the ‘Terror’ up to 40,000 French were murdered. The best estimates are that more than one million Russians were murdered by Stalin during 1937 and 1938.

It’s bizarre that it has taken the sight of the Left finding common cause with radical Islamists to convince people like Nick Cohen that the Left has a problem.

Cohen is more than a little disingenuous on at least two counts. The first is his claim that the Left has only lately ‘lost its way’. In reality the Left has been struggling with its internal contradictions since the publication of The Communist Manifesto. Cohen also engages in a sleight of hand when he conflates ‘liberals’ with ‘the Left’. Liberalism has nothing to do with anything the Left espouses. Liberalism is not the creation of the Left—it is the creation of liberals. (That is unless the Left would like to claim for itself Montesquieu, John Locke, Adam Smith, and John Stuart Mill).

Wilful blindness is one of the most ugly features of the Left. In his review of Tony Judt’s Postwar: A History of Europe since 1945 in Quadrant last year Peter Coleman brilliantly captures the reaction when Solzhenitsyn’s Gulag Archipelago was published in the West in 1973.

It was not news. Its anti-communist message had been well known to those with eyes to see for over fifty years. But many had not been willing to look. (One of the more disgusting Australian publications announced the book under the heading ‘Humbug Archipelago’.)
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The Federal Government’s labour reforms have allegedly set the scene for the main battle at the next federal election, due in late 2007. But there is more to the reforms than appears on the surface. The reforms are, in fact, a complex mix of short-term politics and longer term cultural change. And there is an unrecognised political cunning embedded in the reforms connected to an unexpected philosophy which underpins them.

It’s partly explained by the following story.

Some years after the collapse of the Berlin Wall, two ageing men sat in a television studio being interviewed about their beliefs. One had devoted his life to the defeat of communism. The other had devoted his life to the rise of communism. One seemed to have won, the other lost.

In their earlier years, they had been hotly and personally opposed to each other. They had been high-profile class warriors and ‘machine’ men, strategising within unions and political parties to defeat each other. But now with communism defeated, and in their twilight years, they had discovered a common bond. The thing they both feared the most was unrestrained capitalism. The only thing that could restrain capitalism, they argued, was the power of the state.

In the current debate over labour reform in Australia, the bonded view of these two, now deceased men, brings some missing understanding to the issues. WorkChoices is the key example.

The union and ALP branding of WorkChoices as ‘extreme’ and as the ‘unleashing of employer power’ is factually wrong. It is sloganeering rather than analysis. It’s possible that it is backfiring upon them.

Union and ALP campaigning against WorkChoices promotes the belief that without union and industrial relations commission (IRC) power, employers will always be exploited in Australia. They exclusively tie the idea of ‘employee rights’ to union legal privilege in a pseudo-court system, the IRC. This has been the comfortable idea that has cradled class consciousness in Australia for over 100 years.

WorkChoices largely neuters union and industrial relations commission powers, but its real trick is that it heavily constrains employers. The union/ALP combined attack has failed to recognise this—at least in public. WorkChoices in fact transfers union/IRC power directly to the federal Minister for employment and, through him, to a vastly expanded employment-policing bureaucracy. It’s a model that perfectly fits the vision of the two old men.

WorkChoices imposes on employers a vast new array of highly detailed regulations about what they can and cannot do in their relationships with employees. This not only covers obvious things, such as remuneration, but it also limits the freedom to pay out all holidays, creates strong preference for full-time work and limits the types and styles of industrial agreements that employers can enter with unions, to cite just a few examples.

And the regulations can be—and are being—changed at whim under WorkChoices. This facilitates both the closing of missed legal loopholes that give unions power as well as picking up unaddressed items where employers have stepped out of line. It’s a great advance of red tape and it constitutes a victory for the view that government can micro-manage employer–employee interaction.

But the ALP has misinterpreted this and that has caused them to misdirect their political campaigning. Australian unions have been blinded by their belief that a decline in union power harms workers. Workers and families don’t necessarily see it this way. But the ALP has capitulated to this campaigning position because unions dominate the ALP’s campaign financing.

The Coalition’s IR bet

The counter-campaign by the Coalition Government is simple. They have created a big new bureaucracy to police employers. Largely under the Office of Workplace Services (OWS), the task is to catch and fine as many misbehaving employers as possible and to maximise the associated publicity. The idea is to demonstrate to average Australians that the government disciplines employers better than unions. Early indications are that the OWS is succeeding and has an expanding and proudly advertised list of prosecuted employers.

Ken Phillips is Director, Work Reform Unit at the Institute of Public Affairs.
The Federal Government’s political bet on WorkChoices is that, by the time the election occurs, middle Australia will no longer fear WorkChoices and instead will be impressed by the new reality of government disciplining employers.

This is cunning politics. By largely neutering union legal privilege, the Coalition has significantly detached the unions’ institutional needs from ALP’s political needs. Once an institution is irrelevant (in this case, the IRC), middle Australia has always moved on.

The ALP needs to connect with middle Australia, but the union movement wants to re-create its legal privilege. And the Coalition is playing the unions’ negative image against the ALP to diminish its claims to relevance. The ALP is caught because it needs union money but not the unions’ image as a group of bullies.

At least this is how the Coalition hopes that events will play out.

For people in business, from small to large, the release from the intimidatory legal power of unions and the IRC is a great relief. The comparative groaning weight of WorkChoices regulations is, by comparison, a minor irritant. Consequently, it’s easier for people in business to get on with business.

But there’s also a political hook in WorkChoices for the business sector that probably drives business into the Coalition camp. Now that union legal privilege has been curtailed, business does not want a return to the old ways. And broad business support is traditionally critical for any political party in Australia if it wants to win government.

The ALP’s wormhole

The ALP needs business support. To attract business sympathy, the ALP could soften its pre-election language on WorkChoices. To really win business support, the ALP would probably need to go as far as saying that WorkChoices would be retained.

Because WorkChoices is so regulation-dependent, the ALP wouldn’t need to repeal WorkChoices in order to destroy it. An ALP government could retain WorkChoices but, through regulation, deal unions back into the game of legal privilege. It would be quite simple.

Business generally senses this, which means that the direction of business electoral sympathy becomes ‘trust’ dependent. The question becomes, who can be trusted to keep negative union behaviour curtailed: the Coalition or an ALP dependent on unions?

The Coalition has locked in business support without introducing a free market in labour. WorkChoices has produced a highly regulated environment. But it fits the vision of the two old men who, despite their disagreement about the desirability of full-blown communism, distrusted business even more. It’s an old style ‘conservative’ reform, not a free market one.

Unions have assisted the Coalition by presenting WorkChoices as if it were rampant free market capitalism which has unleashed unfettered employer power. This has led the ALP to campaign in the wrong direction.

With all this in mind, the approach of the new Federal ALP leader, Kevin Rudd, becomes interesting. He is caught in a bind—needing business and union support but almost destined to alienate one or the other. However, he seems to be exploring ways out of the situation.

One of his first decisions was to create a shadow minister for independent contractors, outside the industrial relations portfolio. The Coalition had sought to capture this swinging constituency by creating an Independent Contractors Act. But the Coalition has kept this group within the administrative embrace of the Employment Ministry. The Coalition still sees independent contractors as pseudo employees and broadly within the conservative framework of WorkChoices.

By creating a separate portfolio tied to the business portfolio, Rudd has demonstrated that he sees independent contractors as businesses, not employees. This is a creative step beyond the Coalition’s political perspective. It has the potential to reach out to the small business sector. It also demonstrates a broader view of society than that of the Coalition, and a capacity to break from the beliefs normally forced on the ALP by Australian unions.

It hardly seems conceivable that the unions will allow Rudd to continue in this direction and implement more steps outside of the Left–Right status quo of Australian political thought. Even if middle Australia has moved beyond class consciousness, Australian political orthodoxy is stuck within it.

But if Rudd were to succeed, it could be odd to see the ALP introduce an open market for labour in Australia—open, that is, in comparison to the Coalition’s regulated market. Hawke and Keating surprised Australia by opening Australia’s banks to competition and starting the process of tariff reductions. Rudd may need to take as big a gamble as Howard, but the rewards—for the ALP and the Australian economy—could be enormous.
‘When I use a word,’ Humpty Dumpty said, in a rather scornful tone, ‘it means just what I choose it to mean—neither more nor less’.

‘The question is,’ said Alice, ‘whether you can make words mean so many different things’.

‘The question is,’ said Humpty Dumpty, ‘which is to be master—that’s all’.

—Lewis Carroll
Through the Looking-Glass

‘It’s almost certain’, The Weekend Australian headline told us, that human activity is the cause of global warming. The Intergovernmental Panel on Climate Change (IPCC) brought out a draft version of its ‘Summary for Policymakers’ in February this year. The data within the report is final, but the report itself is still subject to ‘editorial adjustments to figures’. Importantly, the summary states that there is a ‘very high confidence that the globally averaged net effect of human activities since 1750 has been one of warming’. In other words, human events since the Industrial Revolution began have contributed to global climate change. Most of the increase in average temperature is very likely due to human activity. Readers who struggle through the entire 21-page document (with 33 drafting authors and 18 draft contributing authors it is a difficult effort) will notice the terms ‘very likely’, ‘very high confidence’ and the like. But what do these terms mean? The IPCC employs very clumsy terminology and, indeed, manages to conceal precise meanings in its report. In this article we investigate what the IPCC is telling us and show that it is far from clear that global climate change is induced by humans.

The IPCC Process
The IPCC was created in 1988 by two United Nations organisations: the UN Environmental Programme and the World Meteorological Organisation. The IPCC exists to ‘assess on a comprehensive, objective, open and transparent basis the scientific, technical and socio-economic information relevant to..."
understanding the scientific basis of risk of human-induced climate change, its potential impacts and options for adaptation and mitigation’ (our emphasis). In this regard, the IPCC is in the process of releasing its ‘Fourth Assessment Report on Climate Change’. These assessment reports, written by experts in the field, are comprehensive summaries and syntheses of the extant peer-reviewed literature (non-peer-reviewed literature can be included, but must be justified). The draft assessment reports are meant to provide a ‘balanced and complete assessment’ of the body of knowledge. There are then two review processes—first by ‘experts’ and second by ‘government and experts’. The review process is meant to be ‘objective, open and transparent’. What is important to note is that experts in the field are summarising work they have contributed to, and experts whose own work is being summarised are reviewing those summaries. In other words, there is no external disinterested evaluation. The IPCC process is incestuous. This, however, is not as problematic as one might imagine. The original research is peer-reviewed and is less likely to be corrupted. What is problematic is the interpretation of the work contained in the summaries for policymakers.

What we’re being told

The IPCC has concluded that global warming is occurring. This would seem to be uncontroversial. Many people have seen the diagram shown in Figure One. This shows the difference between annual global mean temperature and the average global mean temperature for the period 1961 to 1990. Relative to the average, it can easily be seen that the global temperature has risen quite dramatically in the last 30 years. The IPCC report contains a figure very much like our Figure 1, showing dramatic global warming.

Looking at the data, the warmest year was 1998 and the equal coldest years were 1909 and 1911. The temperature differential between the warmest and the coldest years is 1.09 degrees centigrade. The range of maximum and minimum global mean temperature over the past 156 years is just over 1 degree centigrade.

People looking at a contrived figure such as our Figure 1 can be forgiven for thinking that global warming is a huge urgent problem. There is no reason why the temperature is shown relative to an average over the period 1961 to 1990. There is nothing obviously special about those years. What the IPCC does not show is the actual global mean temperature over the period 1850 to 2006. We show that data in Figure 2.

The IPCC then also says that this warming is ‘extremely unlikely’ to be due to natural variation in climatic processes, and that it has ‘very high confidence’ that this is due to human behaviour. Terms such as ‘extremely unlikely’, ‘highly likely’ and ‘very high confidence’ have absolutely no scientific basis, and there is no scientific justification whatsoever for associating numerical, model-based probabilistic assessments (if that is indeed what they are) with such loaded expressions. A 5 per cent chance means precisely what it says, whereas ‘highly unlikely’ could mean anything. It needlessly confuses the reader.

Hidden away in the footnotes, the IPCC report translates these terms. ‘Extremely unlikely’ means less than 5 per cent probability and ‘very high confidence’ means ‘at least a 9 out of ten
chance of being correct’, or 90 per cent probability. These terms indicate ‘the assessed likelihood, using expert judgement, of an outcome or a result’. The layman reading this might think that there is a 90 per cent probability that human activity is causing global warming—indeed, the Australian newspapers reported the IPCC in that manner. Yet, it is unclear what that 90 per cent represents.

The IPCC helpfully provides a table to guide our understanding of climatic trends and human effects on those trends. We reproduce part of that table, and augment it with the statistical meaning that the IPCC has hidden in its footnotes. Of the seven extreme weather events identified by the IPCC, two have a better than 66 per cent probability of human contribution, and five have a better than 50 per cent probability of human contribution. Yet, the IPCC also tells us that the probability of human contribution to climate change is better than 90 per cent. The whole, according to the IPCC, is substantially greater than the sum of its parts.

**How big is big?**

Scientific method requires researchers to posit a hypothesis, collect data, and then test the hypothesis. Hypothesis-testing is a well-known technique taught in all first-year statistics classes. In other words, hypotheses are falsifiable. That human activity is causing the planet to warm is a testable hypothesis. The IPCC seems to imply that it has tested that hypothesis and failed to reject it. It is at least 90 per cent confident that the hypothesis is not false. Should we be concerned? Probably, not. If this is what the IPCC has done, it has very weak evidence. Hypothesis-testing normally requires confidence levels either of 90 per cent, 95 per cent, or 99 per cent. Ninety per cent is the weakest level of confidence. Yet, the IPCC tells us that its understanding is based ‘upon large amounts of new and more comprehensive data, more sophisticated analysis of data, improvements in understanding of processes and their simulation in models, and more extensive exploration of uncertainty ranges’. As any elementary textbook of statistics reminds its readers, with large data sets, confidence levels have to be increased, so a 90 per cent confidence level would not then be valid—the hypothesis is falsified.

It is not clear from the report whether the IPCC has, in fact, undertaken such an analysis. It is more likely that it has neither a testable model nor data available for external researchers to replicate such a test. In other words, the IPCC’s 90 per cent confidence level has not emerged from a scientific process; it has emerged from scientists evaluating whether they think their own work is correct. Further, in contrast to the IPCC’s own requirement, the 90 per cent confidence level is not open, not objective, and not transparent.

The IPCC purports to undertake a huge task summarising the extant literature on global warming and the extent to which humans contribute to that warming. Yet, when all is said and done, it produces a guess as to what it all means. That may well be an informed guess but it is not a scientific process. How then does the IPCC form its opinions? What proportion of scientists are guessing more than 90 per cent, and what proportion are guessing less than 90 per cent? What is the non-scientific public meant to believe? After all, humans are either causing global warming, or they are not. Despite years of work, and commitments to objectivity, the IPCC is unable to provide the answer to that question. At present, it expects us to take its word at face value—again, a notion that is not scientific.

**Table 1: IPCC Expert Assessment of Human Impact on Extreme Weather Events**

<table>
<thead>
<tr>
<th>Likelihood of a human contribution to observed trend</th>
<th>Probability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Warmer and fewer cold days and nights over most land areas</td>
<td>Likely</td>
</tr>
<tr>
<td>Warmer and more frequent hot days and nights over most land areas</td>
<td>Likely (Nights)</td>
</tr>
<tr>
<td>Warm spells / heat waves. Frequency increases over most land areas</td>
<td>More likely than not</td>
</tr>
<tr>
<td>Heavy precipitation events. Frequency (or proportion of total rainfall from heavy falls) increases over most areas</td>
<td>More likely than not</td>
</tr>
<tr>
<td>Area affected by droughts increases</td>
<td>More likely than not</td>
</tr>
<tr>
<td>Intense tropical cyclone activity increases</td>
<td>More likely than not</td>
</tr>
<tr>
<td>Increased incidence of extreme high sea level (excludes tsunamis)</td>
<td>More likely than not</td>
</tr>
</tbody>
</table>

Source: adapted from IPCC table Summary for Policy Makers, February 2007
American strategy in the Islamic world has been aimed at the establishment of political democracy—a worthy goal, but a worryingly incomplete one. Social and political freedom cannot be fully established unless they are united with the other pillar of liberalism, economic freedom.

One of the late Milton Friedman’s great insights was the inherently peaceful nature of an open economy: the free market, he wrote ‘does not care what [the participants’] religion is; it only cares whether they can produce something you want to buy. It is the most effective system we have discovered to enable people who hate one another to deal with one another and help one another’.

This point also applies to states, as proved by the Economic Freedom of the World Index—reported in the December 2005 edition of the IPA Review. The higher a state’s measure of economic freedom, the less likely it is to wage war on other states. Economic freedom encourages valuable interdependencies between individuals which governments are reluctant to break.

While an Islamo-capitalism has yet to show its face in the most troubled parts of the Middle East, Muslim history and literature displays a sadly under-recognised liberal free market tradition. Islam is not inherently ill-liberal, as is sometimes portrayed, and there is a clear strand of Islamic tradition and thought that provides a stable base for a free society.

The Qur’an and the market

It is no coincidence that Makkah (modern Mecca), the site of Islam’s seventh-century theological birth, was also home to a thriving trading community. The early history of the Muslim world is a history of commerce—religious texts describing this period are replete with contextual references to commercial institutions, merchants and markets, commodities traded and commercial practices.

It would be hard to find a successful civilisation without a stable economic base at its origins, but it is worth emphasising the extent to which Islam, in particular, was conceived in a commercial environment. Makkah was a strategic trading hub, providing a gateway between East and West. Furthermore, its shrines to ancient gods attracted vast numbers of pilgrims, establishing the city as a form of sanctuary—an area recognised as free from interference by the internecine tribal rivalries of the time.

As a result, the Qur’an is infused with the smell of spices and the din of markets. Indeed, Muhammad himself, before arriving in history as a religious preacher, was a caravan trader and business manager. As the historian M.A. Shaban writes, ‘to attempt a study of Muhammad’s activities in Makkah and Arabia without taking trade into consideration is equivalent to studying contemporary Kuwait or Saudi Arabia without paying attention to oil’.

In a powerful article for the Islamic Free Market Institute Foundation, ‘Islam and the Free Market’, Peter J. Ferrara and Khaleel Saffuri describe a Qur’an which strongly defends the market economy. The endorsement of voluntary trade is a keystone of the Qur’an’s attitude towards economic life, and is proclaimed in this early passage:

O ye who believe!
Eat not up your property
Amongst yourselves in vanities.
But let there be amongst you
Traffic and trade
By mutual consent (Qur’an, 4:29)
The Qur’an defends, amongst other things, private property, contract law, and profit through trade. It prohibits fraud. Muhammad himself prohibited price-fixing. The liberal scholar Dr Imad-ad-Dean Ahmad has argued that, even from a political perspective, the sacred text provides much guidance for believers in liberalism—advocating limited taxation, decentralisation, and strict restraints on the public sector.

Believers are to draw their income from the natural resources granted to them by God—it is not a legitimate role of the state to obstruct this process. The Qur’an is clear about Islamic priorities: pray, then profit.

And when the prayer is finished, then may you disperse through the land, and seek of the Bounty of Allah; and remember Allah frequently that you may prosper. (Qur’an 62:10)

The Qur’an is not a free market Bible. Islamic socialists have long pointed to an emphasis on the hero of ‘social justice’ within its pages, and many have drawn an inference in favour of state-granted minimum incomes, and even a large role for heavy public expenditures. Others have cited Qur’anic prohibitions on usury (interest) as an indicator of anti-capitalist sentiment in Islam—even as an insurmountable problem for contemporary Islamic liberalism. (This objection will be dealt with below.)

But Muhammad, as the Marxist historian Maxime Rodinson wrote with perhaps a tinge of regret, simply ‘was not a socialist’.

As with many other religions, justice and fairness play a key role in Islamic theology, but it is disingenuous to ignore the emphasis on charity. Zakah refers to Muslims’ obligation to spend a fixed proportion of their income on the poor and needy—often supplemented by further charity (sadaqah). Just as voluntary charity is a vital part of a capitalist economy, zakah is the third of the Five Pillars of Islam.

Ibn Khaldun and The Wealth of Nations

These strong theological exhortations to prosper from God’s bounty have been reflected in early Islamic scholarship. Occupying a unique place in intellectual history, Ibn Khaldun was a medieval historian, historiographer, sociologist and economist who lived in Tunis, Granada, and Egypt in the fourteenth century. Largely written out of Western intellectual history—Joseph Schumpeter slandered Islamic scholarship by arguing that there existed a ‘great gap’ between the Greek scholars and the Christian scholastics—Ibn Khaldun deserves a central place in economic thought.

Indeed, Imad A. Ahmad argues forcefully that Adam Smith was ‘simply picking up where Ibn Khaldun left off’. Ibn Khaldun’s writings display a clear and unambiguous familiarity with many of the central tenets of what we know as classical economic thought—for instance, an appreciation of supply and demand, of causality, and an understanding of the difference between normative and positive analysis.

His support for the labour theory of value—the theory that the value of something is determined by the amount of labour that has gone into its production—is an open academic question. However, Ahmad convincingly argues that he had a strong appreciation of subjective value—a good’s value is solely determined by how much people are willing to pay for it—which would place him even higher on the intellectual hierarchy than many of the great nineteenth- and twentieth-century economists. While he wrote that labour was an important factor in production, elaborating on the work of Greek scholars, he nominated the utility of a good as a determining factor in its price.

Ibn Khaldun’s writings are rich with insights, and his clarity makes writing a review of his economic thought just that much easier. It is hard to avoid the temptation to quote him at length. For instance, he writes on the commercial ethic:

It should be known that commerce means the attempt to make a profit by increasing capital, through buying goods at a low price and selling them at a higher price, whether these goods consist of slaves, grain, animals, weapons, or clothing material. The accrued amount is called ‘profit’. The attempt to make such a profit may be undertaken by storing goods and holding them until the market has fluctuated from low prices to high prices. This will bring a large profit. Or the merchant may transport his goods to another country where they are more in demand than in his own, where he bought them. This will bring a large profit. Therefore, a veteran merchant said to a person who wanted to find out the truth about commerce: ‘I shall give it you in two words: Buy cheap and sell dear. That is commerce for you’.
He recognises the role of entrepreneurial risk and its relation to the supply of goods:

The transfer of goods from far away countries or through dangerous zones is of greater profit to traders and secures the fluctuations of the market in their favor, because the transferred good is rare and eagerly demanded, owing to its distant source or the risk incurred in its importation. It becomes thus rare, and much demanded and its price consequently rises. If, however, its exporting country was near and its communications secure, there would be many importers and it would be abundantly supplied and its price would tend to be low.

Ahmad's characterisation of Ibn Khaldun as the Islamic Adam Smith is hard to dispute after reading his description of the advantages of a division of labour:

[The] individual human being cannot by himself obtain all the necessities of life. All human beings must cooperate to that end in their civilization. But what is obtained through the cooperation of a group of human beings satisfies the need of a number many times greater (than themselves). For instance, no one by himself, can obtain the share of wheat he needs for food. But when six or ten persons, including a smith and a carpenter to make the tools, and others who are in charge of the oxen, the plowing of the soil, the harvesting of the ripe grain, and all other agricultural activities, undertake to obtain their food and work toward that purpose either separately or collectively and thus obtain through their labor a certain amount of food, (that amount) will be food for a number of people many times their own. The combined labor produces more than the needs and necessities of the workers.

Of course, no figure in intellectual thought can withstand all criticism, and Ibn Khaldun is no exception. For instance, he posited a beneficial role for public expenditure, writing, ‘if the state decreases its expenditures, the other markets follow its way and slacken much more’. But he quickly recognised the limits of this proto-Keynesianism, anticipating the Laffer Curve by about six centuries:

In the early stages of the state, taxes are light in their incidence, but fetch in a large revenue … As time passes and kings succeed each other, they lose their tribal habits in favor of more civilised ones. Their needs and exigencies grow … owing to the luxury in which they have been brought up. Hence they impose fresh taxes on their subjects … [and] sharply raise the rate of old taxes to increase their yield … But the effects on business of this rise in taxation make themselves felt. For business men are soon discouraged by the comparison of their profits with the burden of their taxes … Consequently production falls off, and with it the yield of taxation.
Ibn Khaldun recognised the limits of proto-Keynesianism, and he anticipated the Laffer Curve by about six centuries.

Murray Rothbard’s two volume *Austrian Perspective on the History of Economic Thought* rightfully rehabilitates the Christian School of Salamanca in Spain as heretofore unacknowledged giants in economic history, pre-dating Adam Smith with many of the Scotsman’s key insights, but unfortunately he too neglects Islamic scholars such as Ibn Khaldun.

But as Ahmad notes, the Salamanca School was born shortly after the *reconquista* of Spain from the Muslims in 1492. Given the intellectual cross-pollination of Medieval Europe, it is hard not to imagine that the leading scholars of the School of Salamanca did not have at least a passing familiarity with Ibn Khaldun’s work—he only died in 1406. Ibn Khaldun may have until recently been neglected by economic historians, but his work was not so neglected by his contemporaries.

It is hard not to be struck by Ibn Khaldun’s discussion of Islamic liberty:

Those who, of their own free will and without any compulsion, act according to the Qur’an and the Sunnah [the practice of the Prophet] wear the turban of freedom.

Ibn Khaldun may be a shining light in intellectual history, but he was by no means alone. For instance, one of his students, the Egyptian historian al-Makrizi applied his theory to the contemporary Arabic world, concluding that the causes of Egypt’s economic woes at the time were government corruption, high taxes, and depreciated coins.

**Earlier Islamic Economists**

Preceding Ibn Khaldun, the eleventh-century scholar Abu Hamid al-Ghazali had an enormous influence on Islamic economic thought.

Al-Ghazali investigated the relationship between the materialistic behaviour of the physical world on the one hand, and the moral foundations underpinned by religion on the other. Despite these conflicting elements, al-Ghazali clearly recognised individuals are motivated by self-interest. Observing traders, al-Ghazali wrote,

The motive behind all these activities is the accumulation of profits, undoubtedly. These traders exhaust themselves by travelling to satisfy others’ needs and to make profits, and then these profits too are eaten by others when they themselves obtain things from others.

Al-Ghazali was hardly an advocate of selfish behaviour, however. A conservative with many traditionalist underpinnings, al-Ghazali argued for moderation in the pursuit of profit, and was vehemently opposed to the excessive profitmaking of merchants.

A more accommodating view on the pursuit of profit and individual achievement was presented by the twelfth-century merchant Dimishqi, a Muslim writer from Damascus. Dimishqi wrote:

the wealthy individual is here considered a respected person who deserves people’s esteem because he is rich, not in need, and because he makes for good use of his fortune.

A similarly secular observation is seen by the Persian prince, Kay Kavus, who, in giving advice to his son, wrote:

Do not be indifferent to the acquisition of wealth, yet do not cast yourself into the danger for the sake of it. Assure yourself that everything you acquire shall be the best quality and is likely to give you pleasure.

Ibn Taimiya, whose life overlapped with Ibn Khalduni’s, showed an earlier, although less rich, appreciation of the role of supply and demand:

People’s desire is of different kinds and varies frequently. It varies according to the abundance or scarcity of the good demanded. A good is much more strongly desired when it is scarce than when it is available in abundance… It varies also depending on the number of demanders. If the number of persons demanding a commodity is large, its price goes up against when their number is small… It is also affected by the strength and weaknesses of the need for the good and by the extent of the need, how great or small the need is for it. If the need is great and strong, the price will increase to an extent greater than if the need is small and weak.

**The Usury Problem**

Depending on the interpretation, the Qur’an either forbids all interest, or merely usury, the charging of excessive interest on a loan. Known as *riba*—literally ‘in excess’ or ‘in addition’—this practice is repeatedly denounced throughout:

Those who charge *riba* are in the same position as those controlled by the devil’s influence. This is because they claim that *riba* is
the same as commerce. However, Allah permits commerce, and prohibits riba. Thus, whoever heeds this commandment from his Lord, and refrains from riba, he may keep his past earnings, and his judgment rests with Allah. As for those who persist in riba, they incur Hell, wherein they abide forever (Qur'an, 2:275).

This seemingly unambiguous position has not been the restraint on economic activity that it is often assumed to be. As Maxime Rodinson noted in Islam and Capitalism, the practice of financial lending at interest was well entrenched within Meccan society before the birth of Islam, and remained a feature of Islamic commerce well after. Rather than grinding to a halt, with the assistance of Islamic scholars, Muslim money-lenders and merchants devised an array of legal devices (ruses, or biyal) to avoid the prohibition on riba.

One technique, described supportively in a Shi’ite legal treatise, while in the same breath condemning riba, seems to indicate that this prohibition was not taken very seriously:

There is a way of avoiding riba. For example, Zeid sells Emru a bushel of wheat, in exchange for some other commodity, while Emru sells Zeid two bushels of wheat in exchange for something else. The goods handed over in exchange for the wheat being of little value, and being given in payment for the wheat, there is no riba here, since the things being exchanged are identical neither in kind or in weight.

A translator of this legal text notes that ‘no one could recommend more naively a legal way of breaking the law’. More sophisticated were the techniques detailed in the Book of Escapes and Ruses.

Regardless of the extent to which the prohibition on riba was enforced in Islamic commerce, or whether it refers to all interest or merely ‘excessive’ interest, the usury problem should not be overstated. Prohibitions against usury have been common in all cultures, including Judaism, Hinduism, Buddhism and Christianity. It is hard to beat the fifteenth-century Dominican prior Sant’Antonino’s condemnation of usury as ‘diabolic’, the great ‘harlot’ of the Apocalypse, and those who practise usury ‘worthy of death’. Despite Antonino’s passion, Christian banking has not suffered from his opposition.

Liberal Enclaves in Modern Islam

None of this discussion is to imply that the Islamic religion is consistently or inherently liberal, or necessarily free market. If nothing else, the process of discerning a liberal tradition in Islam illustrates the subjective nature of theology—individuals interpret sacred texts, rather than being controlled by them.

Further, authors should always be careful to interpret another culture’s religion. This article highlights a perspective of Islam not often examined in the west. Around the world, a small number of woefully under-funded free market think tanks are attempting to broadcast a liberal message to the Islamic world.

Organisations such as the Minaret of Freedom Institute and the Islamic Free Market Institute may be small but, with the fostering of Islamic liberalism constituting one of this century’s greatest challenges, their inheritance of the free market tradition has never been more important.
Economics can be confusing enough on its own without the added complexity of dozens of competing ‘schools of thought’ with different approaches, assumptions and conclusions. Institutional economics, new institutional economics, public choice, monetarists, Keynesians, classical economics, neo-classical, new classical, new Keynesian, Austrian, evolutionary, supply-side, Marxist, Chicago school and others.

The story is further complicated by the fact that the different schools often overlap. Sometimes these economic sub-groups conceal more than they reveal. However, for those interested in free market economics and the argument for small government, there is one school of thought that is worth specific consideration—the Austrian school.

Austrian economics in context
Austrian economics came about as a split in mainstream economics at the end of the nineteenth century. Before 1871, mainstream economics followed the ‘classical’ teachings of people such as Adam Smith and David Ricardo.

Classical economics taught that the value of anything was determined according to the labour that was spent on producing it. This ‘labour theory of value’ was rebutted at the end of the nineteenth century by three economists who all came to the same conclusion independently. The Eng-
lishman William Jevons, the Frenchman Leon Walras and the Austrian Carl Menger realised that production and consumption needed to be studied in marginal increments. One important conclusion of the ‘marginal revolution’ was the recognition that value came from the marginal utility that a person has from consuming a good.

At the turn of the twentieth century, a new mainstream emerged that united the ideas from the marginal revolution with classical economics. This ‘neo-classical economics’ was most closely associated with Alfred Marshall (who popularised the famous supply and demand graph) and is still taught to every undergraduate economics student.

But Carl Menger and a small group of his students (specifically Eugen von Böhm-Bawerk and Friedrich von Wieser) continued to develop an alternative successor school to the classical economists with important differences from the neo-classical school.

This new group of thinkers was referred to as ‘Austrian economists’ as a put-down by members of the dominant German Historical School to indicate that Menger and his associates were not part of mainstream German economics.

How is Austrian economics different?
Both Austrian and neo-classical economics admit an intellectual debt to classical economics and both accept the lessons of the marginal revolution. The primary differences lie in methodology and the treatment of time.

The Austrian school, like the preceding classical school, has a strong preference for deductive reasoning and preferred to build theories of the economy based on logic and reason instead of observation. Austrian economists question the value of empirical economic data and are generally sceptical of economic models. This stands in direct contrast to the neo-classical school, which eagerly pursued general equilibrium modelling where the economy is represented by a complex set of thousands of simultaneous equations and a range of estimated variables.

Perhaps more importantly, Austrian economists concentrate on market dynamics, with uncertainty and the consequences arising from changes in knowledge, institutions and preferences over time. Neo-classical economics is primarily concerned with static equilibrium analysis of how an economy will look if knowledge, institutions and preferences are held constant.

In recent decades, mainstream economics has expanded to give greater consideration to economic dynamics. Economic texts still concentrate on static equilibrium analysis, but they also include chapters (hidden in the back) on time and uncertainty. And new areas of economics are concentrating on dynamic issues. New Institutional Economics, for example, is primarily concerned with how institutional arrangements (for example, property rights, laws, social capital) work, how they change and how they affect economic outcomes. Another relatively new area of research is Evolutionary Economics, which uses a ‘biological’ approach that emphasises complex interdependencies, dynamic competition, innovation and growth.

Another point of differentiation is that Austrian thinkers often extend their analysis past the realm of traditional economics and into areas of sociology and all human action. Traditional economics (called catallaxy) is simply one part of the larger study of all human action (called praxeology).

This is another area to which mainstream economists are starting to pay more attention. Gary Becker pioneered neo-classical economic analysis of marriage, suicide and car crashes. More recently, economists have given greater attention to the role of social capital, civil society and other areas of non-traditional economics.

As mainstream economists increasingly consider issues of praxeology and
I am certain nothing has done so much to destroy the juridical safeguards of individual freedom as the striving after the mirage of social justice.
- F.A. Hayek

Freedom is indivisible. As soon as one starts to restrict it, one enters upon a decline on which it is difficult to stop.
- Ludwig von Mises

Economic calculation debate

With the deaths of the Austrian first generation in the early twentieth century, the lack of English translations of Austrian economists, and the ascendency of the neo-classical school, the Austrian approach was marginalised and unpopular. It was at this time that the second (and most famous) generation of Austrian economists were developing their ideas.

Ludwig von Mises and Friedrich von Hayek are the most well-known, influential and arguably the best of the Austrian economists. These two lonely figures led the argument against the neo-classical economists who claimed that it was possible for socialism to work efficiently.

Some neo-classical economists, following the lead of Vilfredo Pareto, argued that it was possible to use models and survey data to centrally plan the appropriate economic decisions in a socialist country. They claimed that this approach could achieve a higher level of economic efficiency than any other. Since it could imitate a perfectly competitive equilibrium, while the Austrians recognised the importance of the dynamic competitive process instead of simply the static competitive outcome.

It was perhaps Hayek's discussion of knowledge that finally showed the inadequacy of the socialist system in efficiently allocating resources in a complex and dynamic economy. However, it wasn't until the collapse of the Soviet Union and the fall of the Berlin Wall that Mises and Hayek were finally vindicated.

Hayek, knowledge and a dynamic economy

In 1944, Hayek published his most famous book, *The Road to Serfdom*, which discussed how a planned economy would tend towards greater political authoritarianism because of the government's need for certainty and control over information.

One year later, he published 'The Use of Knowledge in Society'. In this article Hayek explains that individuals hold a significant amount of unique knowledge of time, place and preferences which can never be adequately collected in one place.

The existence of this diffuse, unique and changing individual knowledge raises the prospect of a constantly changing equilibrium.

Hayek then restates the economic problem as 'mainly one of rapid adaptation to changes in the particular circumstances of time and place' and goes on to explain 'We cannot expect that this problem will be solved by first communicating all this knowledge to a central board which, after integrating all knowledge, issues its orders. We must solve it by some form of decentralization'.

Hayek goes on to explain how the price mechanism succeeds in providing all the information necessary for individuals to make decisions. The 'information-sharing' role of the price mechanism shows why it is not sufficient to have artificial model-derived shadow prices, and that it is necessary actually to go through the market process to determine the price because it is the process that helps to coordinate the widely dispersed information.

Austrians are happy to admit that the market process would probably not provide a perfect static equilibrium as understood by neo-classical economists, but it would make the best use of all knowledge and therefore would get closer to the ever-changing equilibrium than any other approach.

Austrian economics resurgent

In 1974 Hayek received the Nobel Prize in Economics and the Austrian school started to receive more respect and attention. It was at this time that the third generation of Austrian economists started
misunderstandings about Hayek (and, by implication, about Austrian economics).

Perhaps the most absurd mistake made by Rudd was to imply that Hayek’s views have become mainstream in Australia, that John Howard is dancing to the tune of the Austrian economists and that his ‘neo-liberal experiment has now reached the extreme’. It is impossible to reconcile this empty political rhetoric with reality. The Howard Government is following a high taxing, high spending, big government conservative agenda that is a major disappointment to classical liberals and Austrian economists.

One of the more important pieces of Rudd-faction came from a discussion of the role of selfish market behaviour vis-à-vis compassionate interaction with civil society. Rudd interprets Hayek as promoting the market as a replacement for civil society (the ‘commodification’ of life) and he complained that this will lead to a selfish order and a loss of social capital. A similar accusation has occasionally been levelled against many in the classical or neo-classical school who advocate free markets—although, strangely, Rudd wants to exclude Adam Smith from those who might be accused of advocating selfishness. Given the overwhelming similarities between the philosophies of Hayek and Smith, this distinction is not sustainable.

Rudd was able to build a false dichotomy between markets and civil society by not mentioning the third possible way to coordinate human activity—government coercion. In reality, Hayek (like most people) is a supporter of a strong civil society based on compassion. However, civil society and brotherly love are not sufficient to coordinate a complex world economy of six billion people and 150 countries.

The real dichotomy is about which mechanism is used to supplement compassion—should it be voluntary trade in a free market or government control, regulation and planning? Austrian economists have generally concluded that free markets are superior to government in coordinating economic decisions. Rudd complained that allowing a voluntary free market will undermine civil society, but there is no theoretical or practical reason to believe that this is true. Indeed, history suggests that it is more often government that undermines civil society and destroys social capital.

It is good to see Hayek and the ideas of Austrian economics receiving greater attention in Australia. Unfortunately, Rudd’s contribution was nothing more than a politically-motivated and entirely misleading misinformation campaign.

Austrians and the mainstream

Austrian economics is the unpopular cousin to neo-classical economics. They both share an appreciation of marginal analysis and they both grew out of classical economics. The remaining differences between the two approaches have been decreasing in recent decades as mainstream economists are increasingly paying attention to Austrian ideas such as uncertainty, knowledge, dynamic change and innovation.

Many Austrian economists are proud to distinguish themselves from the mainstream. But, equally, there is a large body of economists who are happy to take the lessons of Austrian economics without choosing to sail under the Austrian banner. For this reason it can be problematic to draw too fine a distinction between the neo-classical and Austrian traditions.

However, economists choose to self-identify, if they consider only the static equilibrium analysis of narrow neo-classical economics at the expense of considering knowledge, dynamics and economic change, then they have an imperfect understanding of economics and would benefit from reading some of the Austrian masters.
Modern mainstream economics has particular strengths and weaknesses. Mainstream concepts like opportunity cost, comparative advantage, and marginal cost pricing have great merit. Yet mainstream economics places undue emphasis on equilibrium.

The shortcomings of mainstream economics are subtle, but can be understood with clear examples. Such examples need not come from observed history. While art may imitate life, there is one instance where life cannot imitate art. The movie *Groundhog Day* (1993) illustrates the importance of the Mises-Hayek paradigm as an alternative to equilibrium economics by illustrating the unreal nature of equilibrium theorizing.

In *Groundhog Day*, Bill Murray plays Phil Connors, a man who relives a particular day—Groundhog Day—many times. In the first instance Phil Connors lives through this day quite imperfectly. After committing numerous errors he goes to sleep. When he awakens, time has turned back twenty-four hours. He is about to relive the same day. Since no one else remembers having lived this day before, Connors can relive it knowing more about what will happen than he did the first time. After reliving this same day hundreds of times, he learns how to live it perfectly, not just for him, but for others too.

How does this movie relate to economics? The first time through, the day is highly imperfect because Connors lacks knowledge concerning what will happen. He lacks knowledge of how to take best advantage of what will happen during the day. By his final iteration of Groundhog Day, he has acquired virtually perfect information on how to act during this particular day, given how everyone else will react.

In economic terms the final reliving of the day constitutes what economists refer to as a perfectly competitive equilibrium based on perfect information. With full knowledge of how to realise every possible gain during this day, Connors is able take advantage of every opportunity for gain. The difference between his first time through the day and his final reliving are dramatic. While this is of course only a movie, it does serve to illustrate the wide gulf between the economists’ notion of perfectly competitive equilibrium and reality.

The ability of this fictional character to relive a single day points to vital issues in economics. Perfectly competitive equilibrium requires perfect information. Ignorance leads to errors that put the ideal state of equilibrium out of reach. Ignorance and error exist due to perpetual change. In a world where everything stays the same—except our knowledge of previous days—we can approach perfection.

Phil Connors is able to live a perfect day not only because the events of the physical world are repeating perfectly (i.e. the weather), but more so because people are living it as if it was the first time. Economists refer to ‘Nash Equilibrium’ as a situation where everyone makes plans that are optimal given the plans of others. In such a situation the plans of everyone mesh perfectly. This situation requires everyone to know about the plans of others in advance. This is the essential idea behind equilibrium theorizing in economics.

The problem with equilibrium theorizing is that it assumes that the fundamental conditions of the world do not change. That is, it assumes that we simply play the same game over and over again without any fundamental structural change. In the hypothetical world of Phil Connors in *Groundhog Day* all of the parameters of the ‘game’ he is playing are reset back to their original position every night while he sleeps. In the real world there are no constants. FÅ Hayek recognised the importance of this fact in 1937:

> For any one individual, constancy of the data does in no way mean constancy of all the facts independent of himself, since only the tastes and not the actions of individuals can be assumed to be constant. As all those other people will change their decisions as they gain experience about the external facts and about other peoples’ actions, there is no reason why these processes of successive changes should ever come to an end.

Hayek reasoned that equilibrium was an unreal state, and that the actual economy that we need to explain is one characterised by perpetual change. This fact changes the way we view all economic activity. As Ludwig von Mises put it:

> Once everything is in a state of flux, everything which happens is an innovation. Even when the old is repeated, it is an innovation because, under new conditions, it will have different effects. It is an innovation in its consequences … In any economic system which is in a process of change

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The lessons we learn each day are at best only partially valid for the next day.

all economic activity is based on an uncertain future. It is therefore bound up in risk. It is essentially speculation.

While it might seem extreme to characterise all human action as speculative this is actually an eminently reasonable position. Some people might recall examples of repeated behavior on their own part that generated the same results. Yet such impressions are more apparent than real. Much of the change that happens is subtle, very small, or affects persons other than ourselves whom we do not see. Yet change does occur even when it goes unnoticed. Furthermore, many changes are in fact large, whether noticed or not. The pervasive and ceaseless nature of change has serious consequences.

The lessons we learn each day are at best only partially valid for the next day. Consequently we can at best hope for only a gradual improvement in our lives as we keep pace with but never overtake changes in our surroundings. Our reality is to live our lives as Phil Connors did the first time he lived through Groundhog Day, not the last time. We are all speculators and our every action is innovative.

The idea that we cannot achieve the ideal state of perfectly competitive market equilibrium might seem pessimistic. Some economists insist upon holding the capitalist system to a standard of competitive equilibrium. Failure to meet this standard constitutes a ‘market failure’ that warrants government intervention.

After all, if markets are so very far from perfection, then perhaps government intervention could make things better. While it is important to realise that markets fall far short of perfection, it is more important to realise that markets do enable us all to realise a remarkable degree of plan coordination and efficiency.

Capitalism has increased living standards to levels that primitive man never imagined. The capitalist system delivered tremendous progress through its ability to bring about partial plan coordination among the world’s population.

On any given day market prices can, in the absence of price controls, adjust to a level where supply equals demand. This does not represent a perfect state of affairs as actual market supply is always determined by past production plans based on incomplete and partially incorrect information.

However market prices do serve as guideposts in the imperfect coordination of production in a complex world. Prices arise out of the pursuit of profit by entrepreneurs and the pursuit of greater satisfaction by consumers. These participants to trade use money as a universal and homogeneous measuring rod to realise mutually beneficial exchanges. Without freely circulating money and the pursuit of profit by private owners of the means of production, society would collapse into complete chaos.

Having fairly successfully colonised the specialist coffee market, Fair Trade activists have turned their attention to health care. In the lead-up to the 2006 Toronto World AIDS Conference, Oxfam International broadened its ‘Make Trade Fair’ campaign to include pharmaceuticals.

This is an unfortunate development. The broadening of the campaign into the pharmaceutical industry exposes it as the politically-motivated, not development-motivated, campaign that it is.

Despite its high rhetoric, fair trade is not merely about consumers exercising their trade justice preferences. In its 2002 report, _Mugged: Poverty in your coffee cup_, Oxfam International made 48 recommendations to reform the international coffee trade. Five of the 48 recommendations related to changing consumer behaviour. The remaining 43 included destroying already produced coffee beans, demanding companies buy from Fair Trade suppliers and regulating who could produce and trade coffee beans through a re-established, binding and corruptible International Coffee Agreement.

Fair trade is marketed as a consumer-driven campaign; its foray into pharmaceutical demonstrates that its real aim is to regulate trade outcomes. The fair trade campaign wants to weaken and hold back the development of intellectual property (IP) regimes to achieve their anti-market ideological agenda. The application of fair trade principles to the pharmaceutical industry would hurt, not help, public health around the globe.

Pharmaceutical companies make a profit by innovating and producing life-saving, life-extending and life-enhancing medicines. The costs of invention can reach up to US$800 million per product. As few as one in 10,000 makes it through all the clinical trials and tests to market commercialisation. Yet, because those that do succeed can earn hefty profits, the industry is an easy target for anti-market fair trade activists.

The pharmaceutical industry’s asset base is intangible. To ensure that pharmaceutical companies are able to invest in developing new medicines, they rely on their IP protections. IP rights ensure that companies are able to reap the rewards of their investment as well as spurring on the next round of innovation.

A strong IP rights system is vital to preserve the industry’s interests and to drive it to produce the medicines that ensure we live longer, happier lives.

However, IP regulation differs across the world. Individual countries have a system of registration and enforcement for trademarks, copyright and patents—there is no such thing as an international patent. A company needs to register a patent with each national registrar to ensure that it can have its intellectual property protected.

The pharmaceutical industry relies on patents, and the international standard is that those patents last for at least 20 years. However, once the lengthy process of obtaining marketing approvals has been completed, this period is often whittled down to a mere 12 years for companies to recoup the cost of their investment.

The ‘Make Trade Fair’ campaign wants domestic IP rights regimes to be weakened under the banner of ‘public health’. But to do so would undermine the incentive to develop new medicines.

Market-based economies rely heavily on property rights. In his 2002 book, _The Mystery of Capital_, Peruvian economist Hernando de Soto articulated his now legendary thesis on the consequences of undermining property rights. Where property rights are not enforced, goods and services fail to attract investment. Stifled investment stymies innovation and the optimisation of limited resources. It ensures that individuals cannot prove their ownership and their access to credit is therefore limited. The opportunities foregone are borne by individuals and society as a whole.

IP is no different. In fact, IP is more heavily dependent on strong property rights regimes. At least with traditional

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property there is a tangible good. IP is an intangible good that can be stolen and replicated easily. A failure to establish and enforce IP rights is a direct disincentive innovation. Without strong IP protection, IP-dependent businesses would have an almost impossible time attracting investment.

Behind the mirage of ‘public health’ the fair trade campaign is directly attacking the fundamental infrastructure of a market-based economy.

The battle over TRIPS

This campaign is nothing new. It first started in 1994 when, as part of the conditions for the establishment of the newly formed World Trade Organisation, countries required the inclusion of the Trade-Related Aspects of Intellectual Property Rights (TRIPS) Agreement. The purpose of TRIPS was simple—if a country wanted to be a member of the WTO, it needed to establish and enforce IP rights regimes. It was tantamount to stating that being a member of the WTO also required a demonstrated commitment to a market-based economy.

The benefits are obvious. For large IP-exporting countries, notably the United States, they could ensure that their commercial interests were not being undermined. There were also substantial long-term benefits for developing countries. Failure to have IP rights regimes would mean that they could not attract the investment necessary to move from a derivative manufacturing base to one which develops and markets original products. TRIPS requires patents to last for at least 20 years.

Since its adoption, TRIPS has come under fire. It has been blamed by fair trade activists for major public health disasters ever since. They argue that IP regimes allow big pharmaceutical companies to register patents and thereby inhibit the sale of ‘generic’ medicines. By keeping generics out, prices of medicines are kept high. This limits developing countries’ access to medicines against the interests of public health—solely for the benefit of pharmaceutical companies.

Fair trade activists have sought to reform TRIPS to further weaken developing-country IP rights regimes. Few developing countries have strong IP rights regimes. Pharmaceutical companies rarely bother registering their IP in developing countries where they stand no reasonable chance of earning a return. Registering a patent is not cheap. The regulatory burdens are significant, requiring substantial paperwork and fees. The industry draws the vast majority of the return on its investment from developed countries by selling to consumers and governments.

China allegedly has an IP rights regime, yet IP theft is common, and legal processes for enforcement are flouted. Fair trade activists want to keep it that way.

Fair trade activists have failed to recognise the importance of poor health services in developing countries. It is easy to argue that all medicines should be freely available. It is an implausible argument when the consequences of delivery are considered. The poorest countries barely have the medical and logistical infrastructure to deliver basic healthcare without factoring in complex medicines such as Anti-Retroviral medicines.

Trade in generics became a hot political point in 2001. At the commencement of the Doha Development Round of negotiations in the WTO, there was a strong push to weaken TRIPS to promote ‘public health’ concerns.

Compulsory licensing commitments were introduced to refine TRIPS to allow for the temporary suspension of patents during major public health crises. Countries were even entitled to begin trading in generics where they did not have the infrastructure to produce medicines. They were also given approval for parallel imports—that is, even when the medicines were available within countries, if they could be sourced cheaper elsewhere, they could import them.

Both the industry and governments recognised that legitimate leeway was needed to support the interests of public health. The industry has donated a substantial volume of medicine to the developing world, to the extent that Oxfam produced a report analysing the industry’s significant philanthropy. The conclusion of the report, perhaps not surprisingly, was that giving away free medicines wasn’t enough, they had to give away their IP too.

Oxfam also argued that it is essential to establish an international regulatory body to set prices for medicines. These prices would vary from country to country. Participation from industry in the price-setting would merely be ‘encouraged’.

The anti-IP rights campaign has changed its focus. Before falling under the fair trade banner, the campaign sat with professional left-wing activists. Their arguments were largely fought out in multilateral fora such as the WTO and the World Aids Conference Ministerial.

Now that the anti-IP agenda is under the banner of the fair trade campaign, their misleading and deceptive campaign will be fed directly into the ‘Make Trade Fair’ network—made up of church groups, soft-left political movements and well intentioned, but ultimately misguided, social justice organisations. This will ensure that the campaign moves from the international to the domestic context. Governments will then have to address these concerns and IP rights regimes will suffer.

The push for fair trade pharmaceuticals demonstrates that the campaign is about regulating production and prices, not consumer-driven ‘trade justice’. If the fair trade campaign is successful in targeting pharmaceutical companies, it may temporarily flood markets with cheap generic medicines, but the benefits will be scant when the funds for the next major public health outbreak are needed.
Not content with a Nanny State, now activists are pushing for a Happy State. Drawing on a rapidly-expanding body of research on happiness and life satisfaction, left-leaning think-tanks are calling for government to re-orient policy towards making us feel better.

In Britain, the idea is taken seriously. The Whitehall Well-being Working Group is advising the government on how to make its citizens happier. Conservative leader David Cameron, one for fashionable causes, says that ‘we have to remember what makes people happy, as well as what makes stock markets rise. It’s time we focused not just on GDP, but on GWB—general wellbeing’.

So far, in Australia, few politicians have directly taken up the happiness agenda. Yet if public opinion is a guide, the public is open to a shift in emphasis. A 2006 opinion poll found that more than three-quarters of Australians agreed with the proposition that ‘a government’s prime objective should be achieving the greatest happiness of the people, not the greatest wealth’.

This idea is close to orthodoxy among happiness researchers. The reason is that although GDP per person has increased several-fold since the first happiness surveys were carried out in the 1940s, average happiness is much as it was. Converting answers to a 0—10 scale, in Australia the average fluctuates without a discernable trend between 7.3 and 8.0. Very similar results are found around the Western world. War and dire poverty elsewhere can push averages below 7, but no amount of prosperity, it seems, will increase it very much. If money won’t buy happiness, researchers and activists conclude, we should put less policy emphasis on economic growth.

Instead of growth, favourite policy alternatives of happiness activists are labour market regulation and higher taxes to discourage paid work in favour of spending more time with friends and family. The Australia Institute’s ‘Wellbeing Manifesto’ proposes restrictions on advertising to diminish our desires for things we don’t really need, and measuring our progress in ‘national wellbeing accounts’ instead of GDP.

Some people reject the happiness agenda because they doubt that happiness indicators are reliable. They wonder how comparable one person’s happiness is with another’s. They note that short-term factors can affect answers. They prefer the economist’s ‘revealed preference’—we should not listen to what people tell researchers about their lives, we should look at what they actually do. That tells us what people really want in life, what they (however idiosyncratically) think will make them happy.

While happiness research is still developing, it is more robust than the foregoing critique allows. Well-being self-assessments have been validated against the evaluations of friends and family, by repeat testing of the same person with similar results, and through scans showing heightened activity in areas of the brain associated with positive feeling. Some overall findings are persistent over time and between countries: rich people are happier than poor people, married people are happier than single people, healthy people are happier than sick people, employed people are happier than unemployed people, and religious people are happier than non-religious people.

Yet despite these repeated research findings, there are at least five reasons for doubting that they can be converted into new policies that would increase happiness:

There is little scope for most people to achieve significant and lasting benefits

A key finding of well-being research is that most people have a personality-influenced happiness ‘setpoint’. Positive and negative life events can trigger movements up or down, but in the vast majority of cases these do not result in lasting significant changes. A German study that tracked the same people over 20 years found that fewer than one in five showed on-going and substantial changes in their level of life satisfaction.

About three-quarters of the Australian population already rate themselves in the ‘normal’ 7-or-above range in happiness surveys. Most are probably at or near their setpoint. Many of those below 7 will have suffered temporary setbacks.

Andrew Norton

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from which they will recover in any case, and only about 6 per cent of the population rate their happiness level as below 5.

This means that a relatively small number of people are, even in theory, candidates for policy assistance to boost their well-being into the normal range. If policy was successful in all cases—as we will see, a wildly optimistic assumption—it would still have only a modest effect on national averages.

Some aspects of well-being are not easily targeted by policy

For a happiness policy to work, it has to be able to boost factors that contribute to happiness or alleviate those that cause unhappiness. For example, people without partners tend to have low well-being, particularly in the middle years of life. But there is little government can do about this. There is some reverse causation—people who were unhappy to begin with find it harder to form relationships. So the government’s job will be to match relatively unattractive personalities with mates, and be more successful at it than all the traditional methods, plus the new online dating sites. It would take quixotic faith in the state’s capacity to do good to think that government can achieve much here.

Similar problems afflict the finding that religious belief tends to be good for happiness. As Western societies realised after much bloodshed, trying to convert people except through their own free will is doomed to failure. Religious faith has the same problem as happiness itself; you can’t force people to believe in God or to be happy. We have freedom of religion, and there is not much more that we can do.

Different people respond in different ways

As long work hours can cause neglect of family and friends, the Wellbeing Manifesto proposes restricting work to a maximum 35 hours a week. However, Australian research finds weak connections between well-being and work hours. Not surprisingly, those who liked working long hours were more satisfied than those who did not, but overall people working more than 49 hours a week were more satisfied with life than those working shorter hours. This highlights the problem with fixing work hours. Some people would be better off and others worse off. As we know that workers change their hours over time, and change their attitudes towards their hours, the work–family and leisure trade-off is better left to individuals rather than politicians.

Happiness statistics can be manipulated

We are used to governments manipulating statistics for political reasons. But if happiness statistics become politically important, voters may end up the manipulators. Depending on their partisan preference, voters could try to make the government look better or worse when answering happiness surveys, rather than tell the truth about their own situation. Other polls show signs of these partisan effects. Respondents who support the governing party are more likely to say that they are optimistic about their own situation. The irony is that the policy objective that happiness activists single out for rejection, economic growth, is the very one that they should be promoting.

Happiness research provides redundant additional arguments

The happiness research isn’t completely without policy-relevant arguments. Unemployment and ill health can both have serious negative effects on happiness, and government policy can certainly affect these problems (for better and for worse). But it’s hard to see that the happiness research adds any new urgency to what have long been policy priorities, or provides any new insights into the only interesting issue: how we go about alleviating these problems. Another argument that unemployment and health care are important is redundant.

There is a danger that happiness research will, in policy terms, end up being worse than superfluous. The activists using the research over-extrapolate from the (fairly obvious) finding that money alone can’t buy happiness to the conclusion that we should not worry about economic growth. Yet economic growth is vital to reducing one of the few causes of unhappiness government can influence—unemployment—and highly desirable to providing another—improved health care. The irony is that the policy objective that happiness activists single out for rejection, economic growth, is the very one that they should be promoting.

Instead of growth, favourite policy alternatives of happiness activists are labour market regulation and higher taxes.
Can communities be granted rights not given to individuals? People who value the concept of individual liberty are generally inclined to assume that it is best protected by allowing decisions to be made at the most local level possible. Individual rights do come under constant threat from big centralised governments, but it is important to recognise that individual rights are also constantly being attacked at the local level.

In fact, in many cases in Australia, individual rights are actually better protected by Federal or State governments than by their local counterparts.

Sometimes the localised assault on individual rights takes the form of local government authorities of their own volition attempting to increase their power through ever-growing bureaucracies and regulations covering the minutiae of daily life. However, just as often it comes in response to local residents’ groups claiming that they should have the power to decide whether changes to the their town or suburb should be allowed.

The threats to individual rights are generally some form of incumbent protectionism that attempts to assert a bogus right of existing members of a community to decide which new people, businesses, developments or buildings should be allowed to join them.

Two very different issues, in two very different communities, highlight a gross distortion about what rights neighbours, local communities and local governments should be able to exercise.

Richard Allsop

Exclusion by community

In December last year, the Tamworth Regional Council created a national controversy when it voted not to accept five Sudanese families that the Commonwealth Immigration Department had decided were most appropriately located there.

The media coverage of the issue was largely devoted to trying to prove that residents of Tamworth (and, by extension, most Australians) were racist, while failing to address the basic question of why the local council was voting on the issue in the first place and how they actually had the power to veto the decision to locate the refugees in the town.

Even the most ardent federalist would accept that immigration policy would rank with defence and trade as areas of obvious Commonwealth responsibility. The Commonwealth Government, despite having a contrary reputation, actually runs one of the world’s most liberal immigration regimes, a status which includes having made Australia the world’s second largest acceptor of people in need of resettlement, with the combined refugee and humanitarian programmes taking in 13,000 people per year.

Refugees are people who are outside their country of nationality and are unable to return because they fear persecution. Those on the humanitarian programme were forced to leave their home country after being subjected to substantial discrimination, or were granted visas under a dedicated programme for women and their dependents who were particularly vulnerable following the loss of male family members.

More than anyone, people who have suffered in this way should be able to choose where in the world they wish to live. Obviously, in an ideal libertarian world they, along with everyone else, would make individual decisions, but in the world of nation-states it is probably only reasonable that an accepting generous state such as Australia plays some role in deciding where best new arrivals can be located within the country.

New arrivals in Australia are settled in every capital city, as well as in 14 regional centres around the country in communities as diverse as Coffs Harbour, Shepparton and Mandurah. The rationale for including regional centres in the programme is that it may help to address regional population decline and labour shortages, and the hope that refugees settling in regional Australia could benefit from a higher degree of community support and better access to employment opportunities.

Local opponents of allowing the five Sudanese families slated to join other Sudanese who had already settled in Tamworth came up with the extraordinary proposition that there was not enough government support being provided to allow the new arrivals to settle adequately into the community.

Upon arrival, refugees are provided

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Almost any development, residential or commercial, is likely to be opposed by some local residents’ action group.

People who complain about urban sprawl also complain about urban consolidation when it comes to their area.

with intensive support through the Australian Government’s Integrated Humanitarian Settlement Strategy (IHSS). Moreover, the NSW State Government was keen to emphasise that, in the case of Tamworth, it was boosting refugee health services with additional funding in the Hunter-New England region and was employing a Refugee Health Nurse dedicated to working with refugees.

Given this degree of government support, one could more legitimately argue that the Federal and State governments were being too paternalistic and denying incoming refugees the opportunity to develop the necessary self-reliance that will be required to build prosperous lives in Australia. Indeed, when one looks at the Immigration Department Website, one almost longs for the nineteenth century when immigrants were able to pursue their own destiny.

But whatever our views on levels of government support for immigrants, this is not an issue for local government. Provided that the immigrants are to live in legally purchased or rented property, it is not for the local government to withhold approval. No individual has the right to use the political process to deny another individual the right to live in a neighbouring property.

If every Australian community adopted the original position taken by the Tamworth Regional Council, it would be impossible to settle any refugees in this country. If this is a widely supported approach, then the proper avenue to effect it would be by attempting to change Federal Government policy—rather than sneaking this policy in via the back door by claiming some bogus right to maintain the current nature of ‘community’.

Save their suburbs

The country music capital of Australia and the leafy eastern suburbs of Melbourne may not have a lot in common, but they do both have people trying to use the local political process to prevent change and deny individual freedom.

Melbourne’s suburban conservation movements have, since the 1990s, been headed by Save Our Suburbs, an organisation which claims that it ‘cares about the impact of development and urban planning in Victoria, especially the suburbs and environs of Melbourne which provide the city with some of the most desirable living conditions in the world and a lifestyle which is quintessentially Australian’.

Almost any development—residential or commercial—is likely to be opposed by some local residents’ action group. Residents who in the one breath complain that strip shopping centres have lost out to the large mall-style centres, in the next complain about large retail developments in the strips. People who complain about urban sprawl also complain about urban consolidation when it comes to their area.

Sometimes the opposition to new development takes on blatantly protectionist overtones, such as when a local residents’ group opposed the establishment of a large new bottle shop in the area on the grounds that there were already a number of other bottle shops there.

Alcohol has always been an area where some people try to infringe other peoples’ liberty. In the 1920s, the municipalities of Camberwell and Box Hill voted to abolish liquor licences. While Box Hill removed this restriction in recent times, it remains in the area covered by the former Camberwell. The good news is that, recently, individual restaurants seem to be winning local polls enabling them to undertake the radical action of selling a bottle of wine to customers having a meal.

However, while freedom is on the march in restaurants, it seems to be on the back foot where developers are involved. Developments large and small often end-up stymied in the bureaucracy of council planning departments. Council will often come under pressure from residents near, or in some cases not so near, a development, sprouting a mantra of ‘effective implementation of local community aspirations’ or ‘protecting neighbourhood character’, phrases which usually mean a method by which a noisy minority group imposes its wishes on property owners.

In Victoria, at least, planning decisions taken by local councils can be appealed to the Victorian Civil and Administrative Tribunal (VCAT) and often the rights of property owners are better respected there. While there are many problems with State Government planning policy (and in recent times the IPA has documented many), at least in a forum such as the VCAT decisions have to accord with a transparent policy rather than be subject to capricious local attitudes.

If we value freedom, we must allow, as much as possible, individuals to make their own decisions both about where they wish to live and how they wish to use property that they own. If Federal or State Governments are protecting those individual rights against threats from local governments or local residents’ groups, then they should be supported.
In November last year, the Prime Minister, John Howard, called a summit to discuss the ‘water crisis’ in the Murray–Darling Basin. The meeting was triggered by the New South Wales Government’s decision to suspend water trading on the Murray and Murrumbidgee rivers. At the summit it was agreed that a contingency plan would be developed to secure urban and town supplies during 2007–2008.

Mr Howard has since announced a plan, but rather than focusing on immediate need, he has announced a ten-point, ten-year water plan that he has described as ‘the biggest single infrastructure investment in water ever proposed by any level of government in Australia’.

The Executive Director of the Australian Conservation Foundation, Don Henry, has described it as ‘A good plan with adequate funding to do the job’. But Mr Henry doesn’t mean securing urban and town water supplies, he means purchasing water for the environment.

The Grand Plan

The new plan was announced on 25 January 2007, and in the accompanying 21-page document entitled ‘A National Plan for Water Security’ it was explained that ‘in the face of protracted drought and the prospect of long-term climate change we need a radical and permanent change in our water management practices’.

It claimed that there is already significant over-allocation of water resources—that more water is diverted from rivers in the Murray–Darling Basin than is sustainable. Furthermore, the document claims that there will be an ongoing reduction in inflows because of bushfires, new farm dams, bores and plantations. The document states that these changes have eroded the security of water entitlements, making it hard for irrigators to manage their enterprises in times of drought.

But first things first. It’s not actually a national plan.

There are currently water shortages in most State capital cities, and opportunities for infrastructure development in northern Australia, yet almost all of the $10 billion will be spent in the Murray–Darling Basin, either buying water entitlements or subsidising investment in improved water infrastructure and irrigation equipment.

Around 70 per cent of all irrigated agriculture in Australia is in the Murray–Darling Basin, a region which covers about 14 per cent of the landmass of Australia, but which receives less than 7 per cent of Australia’s total water runoff. This proportion is predicted to decrease. Rather than a national plan, the Government’s initiative is a $10 billion investment in a region where governments have historically invested heavily in water infrastructure, but where there has never been that much water.

An Investment in the Environment

Although the plan is ostensibly about improving the environment, it could be argued that there is not that much natural environment left in the Basin.

The Murray River has essentially been turned into an irrigation channel. Its headwaters are part of the Snowy hydroelectricity scheme, and it passes through four large dams and 13 locks until it ends in a series of barrages at the Murray’s mouth.
The new plan claims that there has been a general deterioration in ‘riverine health’ without providing any evidence or referring to particular indicators.

That is not to say that the Murray isn’t a healthy system, simply that it’s birtled by dams. Yet this is where the Federal Government has decided it will make a major investment in the environment.

It is not the first time that the Federal Government has thrown money at the region, with much of the $3 billion in the Natural Heritage Trust from the sale of Telstra having been spent saving the Murray–Darling Basin, including from salinity.

Mr Henry from the Australian Conservation Foundation has claimed that the new plan for water security will provide much-needed relief for a system ‘suffering from decades of too much water being taken out, leaving rivers, wetlands and wildlife literally dying for a drink’.

But despite the drought—and because of various existing environmental flow allocations, Landcare initiatives, drainage management plans and salt interception schemes—water quality has improved dramatically along the Murray River, with salt levels halved over the last 20 years. The numbers of native fish have been on the increase. Furthermore, many red gum forests have benefited from artificial waterings possible even during the drought because of the Snowy scheme.

Yet the new plan announced by the Prime Minister claims that there has been a general deterioration in ‘riverine health’ without providing any evidence or referring to particular indicators.

There may indeed be a rapid deterioration if there is no rain over the next two months as the river reduces to a series of braids. Yet this was certainly not the situation in January when the plan was announced.

The plan does not specify which environments are most in need of water, but rather refers to the general needs of iconic rivers and wetlands.

A well-kept secret is that much of the 120,000 megalitres of water—worth about $12 million—released by the New South Wales Government as environmental flow for the Macquarie Marshes in September 2005 was used to fatten cattle on private land. Indeed, 88 per cent of the Marshes are privately owned. Through the construction of levees, diversions and channels, marsh graziers have ensured that some environmental flow goes to private land.

The Extent of Over-Allocation

The new water plan states that there is over-allocation within the Murray–Darling Basin, where over-allocation is defined as a situation where more water entitlements have been issued in a system than can be sustained. However, it does not specify the extent of the problem.

According to the National Water Commission’s 2005 baseline assessment, of the 340 surface water management areas, just 1 per cent is reported to be over-allocated. There are also 367 groundwater management units and, of these, just 5 per cent are reported in the National Water Commission’s assessment as over-allocated.

In other words, 99 per cent and 95 per cent of our surface and groundwater management areas, respectively, are not currently classified by the Federal Government as over-allocated. These official statistics are difficult to reconcile with the Prime Minister’s claims that we have a water crisis because of ‘over-allocation’.

Rather, it would seem that we have a drought.

$3 Billion to Buy Water Licences

Nevertheless, there is a whopping $3 billion in the plan ostensibly to buy water entitlements to fix the ‘problem’ of over-allocation once and for all. Some water brokers have estimated that the $3 billion will buy about 3,600 gigalitres of water.

Total annual inflows to the Basin have historically been in the order of 24,000 gigalitres, with just under half of this amount, about 12,000 gigalitres, available for irrigation in an average year. So, 3,600 gigalitres represent about a third of the water historically available for irrigation in an average year. This is potentially a huge amount of water.

But a water entitlement only comes with a water allocation when there is water in the dams. Indeed the Prime Minister could spend this large amount of money and end up with very little actual water—particularly if some of the climate change doomsayers are correct. For instance, the Australian Conservation Foundation has claimed that Basin inflows could be permanently reduced by up to 48 per cent.

$6 Billion for Infrastructure

There is $6 billion in the plan to modernise irrigation infrastructure, to line and pipe major delivery channels, and install more lateral sprays, centre pivots and drip irrigation systems. It is hoped that this will ‘save’ another 3,000 gigalitres of water, with half of this amount returned to farmers.

There is, however, no acknowledgement in the plan of the significant efficiency gains already made by irrigators. For example, Australian rice growers have improved their efficiency of water use by 60 per cent over the last decade. When there was water a couple of years ago, they were using 50 per cent less for every kilogram of rice produced compared to the world average.

Part of the $6 billion will be spent digging a new channel to bypass what is known as the Barmah Choke in the Murray Valley and in this way get water down the river faster and more efficiently—including to new orchards in the Riverland in South Australia, and Sunraysia in western Victoria.
High Security versus General Security Water Entitlements

Orchards in South Australia tend to have ‘high security’ water entitlements—they are provided with water even during drought. So until very recently, South Australia was receiving fully 80 per cent of its water entitlement. The result has been that water levels in the Murray River are artificially high for much of the length of the river most of the time. In contrast, many New South Wales irrigators have had a very low or zero water allocation over recent years because they have what are referred to as ‘general security’ water entitlements—that is, a low reliability entitlement suitable for annual crops such as rice and cotton.

The planting of higher value perennial crops, including almonds and olives, has been encouraged by government and even by some environmental groups because they are deemed to be more efficient users of water than, for example, rice and cotton, as more money is received per megalitre of water used. But unlike crops such as rice and cotton, orchards need water every year. Indeed they demand a higher level of water security, which is what the Prime Minister says the new $10 billion water plan is all about.

At the same time, however, the Federal Government claims that it wants more natural river-systems whose water-flows mimic the seasons. But if this were the case, it would not devise plans that seek a high level of water security which favour perennial crops. Indeed, in many ways, rice and cotton suit a land of drought and flooding rains.

Ignoring the Issue of Reduced Inflows

Rainfall over the last few years has been low, but there is no general downward trend (see Figure 1). Inflows have been exceptionally low.

The new water plan acknowledges the reduced inflows resulting from bushfires, unregulated growth in farm dams, bores and also new plantations. But it does nothing to address any of these issues.

The Cooperative Research Centre for Catchment Hydrology has calculated that regrowth from the 2003 bushfires will absorb some 430 gigalitres of water per year over the next 50 years. This is water that would otherwise have flowed into the headwaters of the Murray River. Potential solutions include better management of national parks to reduce the incidence of wildfires—but such a solution is not canvassed in the new water plan.

Improved on-farm water use efficiencies are also likely to have contributed to reduced inflows downstream and inflows to rivers are likely to be further reduced with improvements in water infrastructure and irrigation technologies as proposed in the new plan.

Conclusion

Despite government rhetoric, there is no national plan for water security. There is no money in the plan announced on 25 January for Brisbane, Sydney or Melbourne where most of Australia’s population now lives, and there is no money in the new plan for regional centres or new industries. Instead, during one of the worst droughts on record, the Prime Minister announces a new $10 billion investment in the Murray-Darling Basin—a region where many would argue that successive governments have already over-invested in water infrastructure.

The plan also assumes over-allocation when the available data indicate that only 1 per cent of surface water and 5 per cent of groundwater areas are over-allocated.

Without calculating the opportunity cost, the plan includes a whopping $3 billion to buy back water ostensibly for ‘the environment’ in a region where very little natural environment still exists. There is another almost $6 billion of taxpayers’ funds for new water infrastructure and irrigation equipment.

New corporate farms in the Riverland and Sunraysia regions with high-value perennial crops may be in the best position to benefit from the infrastructure subsidy. Smaller holdings with ‘general security’ water in places such as the Murray Valley may sell, potentially delivering a large volume of low reliability water entitlement. These irrigators have been worn down by years of drought and the vicissitudes of water politics. They know that with $10 billion, governments can make it rain dollars, but not water.

Indeed, if it doesn’t rain, these irrigators will have been handsomely compensated. But if it does the new $10 billion plan may be remembered as an expensive intervention, delivering very little for the environment, but resulting in the redistribution of water in an increasingly modified agricultural environment—and all at the taxpayers’ expense.

IPA

**Figure 1: Murray Darling Basin Annual Rainfall 1900 - 2006**

Source: Australian Bureau of Meteorology

![Graph showing annual rainfall from 1900 to 2006, with a 11-year rolling average line.](source: Australian Bureau of Meteorology)
Government action is rarely harmonious.

Policy aims, and the methods used to achieve those aims, differ from one area to the next. Tourism, for instance, suffers from this regulatory dissonance. One side of government proclaims its virtues, while another side undermines it.

Governments of all political hues have repeatedly used rhetoric encouraging local governments and communities to pursue tourism as a way to broaden economies based on agriculture, forestry or mining. The Greens repeatedly suggest that ‘unsustainable’ agriculture can be readily replaced with ‘ecotourism’—an industry which exists more in the Qantas in-flight magazine than in reality.

Some regions have embraced this advice with gusto, creating clusters of bed and breakfasts, guest houses and hotels. The regions offer fine dining and activities such as wine tastings or spa treatments. Victoria has the Goldfields region and the Great Ocean Road, South Australia the Adelaide Hills, Western Australia has Margaret River, and New South Wales the Hunter and Blue Mountains. Typically located within a couple of hours of the capital city and centred on quite small country towns, they cater to the long weekend or mini-break markets. Across Australia the total amount spent annually in the B&B market is over $1.55 billion, with over 80 per cent of this spent in country areas.

Farmstay and farm-based bed and breakfasts are another growing category, as families seek the experience of staying on a working farm or within a completely rural community. For the property owners, operating a Farmstay (with farming activities included) or renting out the shearers’ quarters as bed and breakfast may be the only option for additional income if distance from town, lack of experience or poor telecommunications rules out the ‘tree-change’ options of working from the farm as a journalist or graphic designer or any of the other well-paid jobs often highlighted as alternative options for those living on farms.

For tourists, bed and breakfast or Farmstay offer a particular kind of experience not available in motels or large hotels. For a start, they all provide breakfast with the tariff and the accommodation is usually limited to four or five guest rooms, often in a house shared with the owners of the premises. Some offer dinner, particularly in remote areas, and most will have a communal lounge room for all guests. The other major difference between them and larger accommodation is the interaction between the owners and guests. As the NSW B&B guide puts it: ‘there is also the host’s focus on a positive personal welcome for all guests as the beginning of establishing a warm and friendly, yet not intrusive, relationship with them’.

Running a country accommodation business should be an achievable goal both for escapees from the city and long-time country people with relatively limited capital (as the property usually doubles as a principal residence). Typically the building is older, perhaps a Victorian terrace or old shearers’ quarters, and the furnishings are designed to match the age and character of the house. B&Bs cater to affluent, older travellers. The most recent survey of B&Bs found that 41 per cent of guests had incomes over $78,000, much higher than the incomes of travellers staying in other types of accommodation. To meet the expectations of guests, the average B&B is rated three stars or greater. B&Bs are successful in meeting their guests’ needs, with very high levels of satisfaction reported by guests (the sector is second only to eco-lodges in terms of satisfaction) and with an overall satisfaction level of 98 per cent.

Given all this, it could perhaps be assumed that the various levels of government responsible for regulating B&Bs would take the view that light-handed regulation would best suit the sector. After all, these are typically very small

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Why do governments hate bed and breakfasts?

Louise Staley

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businesses, located in rural and regional Australia, run by people offering a superior level of accommodation and service to meet the market. Dodgy operators just don’t survive in an industry characterised by word-of-mouth recommendations and privately run industry accreditation.

Yet this is not the case. As the NSW B&B and Farmstay Association laments, ‘the law that applies to B&Bs and Farmstays is mounting in breadth and detail almost by the day’. Similar tales of regulatory complexity and overload are voiced by Victorian operators who note that a B&B or Farmstay operator needs to comply with a minimum of seven groups of regulations, administered by all three levels of government. To compound the problem of over-regulation, there is little consistency across local government areas in the implementation of food and planning laws, which makes it difficult, if not impossible, for B&B associations to create ‘how-to’ guides for their membership which would help new entrants navigate their way through the maze of regulation.

Looking more closely at the current regulations shows that some were designed for other types of accommodation such as large hotels, others lack sense, and yet others are merely revenue-raising exercises. All of them add cost and complexity to running B&Bs and Farmstays, yet many could either be totally abolished or substantially reworked.

**Example of regulatory costs for a small B&B**

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<th>Annual Compliance Total</th>
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<td>Registration of premises for B&amp;B</td>
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<tr>
<td>Prescribed accommodation licence</td>
<td>$200</td>
</tr>
<tr>
<td>Liquor licence</td>
<td>$60</td>
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<tr>
<td>Public liability (2-room operator)</td>
<td>$1800</td>
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<tr>
<td>Tourism association membership</td>
<td>$200</td>
</tr>
<tr>
<td>Accreditation Fees</td>
<td>$180</td>
</tr>
<tr>
<td>Star Ratings</td>
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</table>

**Source:** IPA

Do more Oregonians get food poisoning?

Food safety regulations are particularly onerous in some States, despite the move to so-called outcomes-based regulation instead of the previous idea of specific prescriptive rules. For example, a Victorian regulation specifies two fridges, one for guests’ food and the other for the owners. But are the owners more likely to have rotten food in their fridge? If there must be two fridges, it is probably more sensible to divide them by function, with perhaps dairy and meat in one and fruit and vegetables in the other. Another regulation requires the checking and recording of fridge temperatures every four hours. This is the same requirement faced by butchers and delicatessens and it may be defensible as a management technique in an environment where many people are in and out of the fridge and there is a chance of a break-down going unreported.

But B&Bs are in someone’s home, with only the owners and perhaps a part-time employee using the fridge. Unlike high-turnover premises, surely the issue with B&Bs is to guard against the slimy lettuce or three-day-old fish lurking in the back somewhere.

Compulsory training has become a cornerstone of food safety regulation, with courses in awareness of (if not compliance with) the regulations offered by many TAFEs where B&B operators can become ‘food safety supervisors’. By contrast, to become a licensed food handler in Oregon you can take an online course. Why can’t Australians learn online like Oregonians? Are there any statistics anywhere to show that Oregon, USA has a worse record of public food poisoning than Australia?

Moreover, in addition to food safety regulations, there are rules about what kind of kitchen a B&B or Farmstay can have if preparing food for guests. Some of the common requirements such as cleanliness, double sinks and splashbacks are not onerous and, for most people, would require little capital expenditure to achieve them. However, these laws are implemented and in some cases devised by local government. As a result, there is no consistency. Furthermore, horror stories abound of over-zealous new inspectors failing kitchens that have previously made the grade. Other councils have weakly insufficient resources to police these and the food safety regulations, making compliance effectively voluntary. According to the NSW State Government’s own guidelines, ‘the B&B industry cites numerous instances where particularly onerous and costly commercial kitchen fitouts have been required which are cost prohibitive to a small scale B&B operator’.

In the B&B and Farmstay market, anecdotal evidence suggests that the current lack of clarity in what is required to meet food safety and kitchen registration has resulted in many operators of cottages and shearer’s quarters doing no food preparation at all, and only serving pre-packaged food: those awful mini-milks and single-serve breakfast cereal. As a result, their guests miss out on a better quality product. Even if the apparent fear of being unable to comply with all the food regulations is misplaced, the fear still remains, leading many to remain unregistered micro-businesses.

**Fire & water & bricks & mortar**

Some councils require registration of B&Bs, others don’t. Some only require registration if offering more than seven beds, others specify two rooms. Some council ban B&Bs altogether. Some place effective barriers to entry by letting existing operators continue without registration while making new entrants comply...
Unlike high turnover premises, surely the issue with B&Bs is to guard against the slimy lettuce or three-day-old fish lurking in the back of the fridge somewhere.

with very onerous rules.

In Victoria, for example, the regulations for Ballarat and neighbouring Clunes have significant differences, particularly about how many people can stay before the business must be registered. This perhaps wouldn’t matter much except the regional promotion is centred in Ballarat and that council has effectively forced Clunes B&Bs to comply with Ballarat regulations if the operators want to be listed in the tourism directory and have their brochures available from the visitor information centre.

Being registered has direct costs of roughly $500 per year, depending on the council. The insurance industry has piggybacked on building registration as a requirement for public liability insurance. Public liability insurance is itself a huge expense for many operators, particularly those in heritage buildings with premia as high as $20,000 for larger establishments in old two-storey buildings and about $1,800 for smaller operators with only two rooms in a single-storey cottage.

Even something as vital and simple as fire safety is regulated by three or four Acts and Codes. No wonder people have difficulty determining if they are complying.

Water in the country brings its own challenges. Apart from the widespread lack of it, many rural properties are not connected to town water. In the past, the general rule was that if it looks clean, smells clean and tastes clean and comes from a well-maintained catchment area (that is, a roof), then an operator was regarded as doing the right thing. However, at least in New South Wales, this is insufficient and B&B operators are required to implement an eight-point water management plan, including monthly testing at $100 a month, and the possible installation of costly filtration devices despite the fact that the owners also drink the water and therefore have a strong personal incentive to ensure its potability.

Keeping Australia’s electricians in work

Every electrical appliance needs to be tested and tagged every two years by a qualified electrician or someone who has done the appropriate TAFE course. Because of the nature of B&Bs and Farmstays, the home is the business, so every toaster, iron, vacuum cleaner, bed lamp, hair dryer, computer, television, fridge etc. *ad naturam* must be tested and tagged every two years. This is just one of the occupational health and safety requirements of running a B&B.

What can be done?

In Australia there is a national system of star ratings for B&Bs and Farmstays operated by AAA Tourism, a partnership between the various State-based motorising organisations. AAA claims that more than 70 per cent of travellers use the star rating system to determine where to stay. Additionally, the industry has formed the Australian Tourism Accreditation Association (ATAA) which focuses on business practices rather than the more facilities-based assessment of AAA. In Victoria, the Government has mandated membership of ATAA for tourism businesses that want to be included in government marketing programmes such as the jigsaw campaign or B&B directory.

AAA assesses premises on over 1,000 criteria, including cleanliness, working order, appearance and standard, while ATAA assesses operators on all the behind-thescenes business practices including OH&S, marketing plans, financials, customer service and environmental sustainability. Either one of these bodies is far more thorough than a rare visit from a council food safety officer or building inspector. Because these organisations offer something valued by B&B and Farmstay operators, many pay the dues even though it is voluntary. This stands in marked contrast to the common feelings of being overburdened with unnessary and costly government regulation.

At the moment these two organisations require compliance with the plethora of regulations as a prerequisite to membership. However, an alternative approach, as a first step to repealing some of the registration requirements, would be to exempt those B&B and Farmstay operators from compliance with the registration, food safety and OH&S regulations who are star rated or accredited by ATAA. Over time, it would be able to determine if these rated or accredited businesses had fewer Workcover claims and, if so, whether being a member of one of these bodies could translate to lower Workcover premia. Similarly, the public liability insurers may find that these operators make fewer public liability claims and their premia could also fall.

Tangible cost reductions could therefore flow through to these small rural and regional businesses while at the same time achieving the public policy goals of safe and pleasant accommodation options for tourists. Apart from any cost reduction, such a scheme would also massively reduce the double compliance which occurs at present, where operators have to comply with the government rules but then choose to submit themselves to greater scrutiny by the private organisations in order to gain the benefits of membership.

The proposed dual system of private and government assessment and accreditation or regulation could run for a number of years to provide the evidence needed to show that industry can effectively police itself and scrap some of these regulations. At that point, the politicians’ claims of wanting to help small business and help rural and regional economies diversify might actually be more than empty rhetoric.
Who’s afraid of American health care?

Brian Bedkober

It is not uncommon to hear a politician or medico-politician say, usually with a contemptuous sneer, that we would not want to introduce into Australia any of the features of the American health care system. This kind of comment is usually made while defending the Australian system and denigrating suggestions that Australia should place more reliance on market-based solutions to the provision of health care.

Australia and the US have the two least socialised (or most mixed) systems of health care in the world. Any comparisons that are to be made should be made, therefore, between these two systems and the rest. It is natural, however, for those who prefer a more socialised Australian system to attack the less socialised US system.

Although there is much to be criticised in the American system, those features that are most vulnerable to legitimate attack are those that arise as a result of the increasingly heavy hand of regulation (in particular, Medicare and Medicaid). It is not more regulation and less competition that both health care systems need, but less intervention and a healthier dose of competition. Nevertheless, the American system generally works better than the Australian system and a good deal better than the systems of the UK and Canada with which it is more usually compared.

But, as in the Australian system, these advantages are under continual threat by those who believe that they know best how to organise other people’s lives and are prepared to use the authority of government to do so.

The easiest caricature of the American system, and one which we see in Australia far too often, is the belief that the poor and unemployed are refused treatment if they are without health insurance. But to do so would be against Federal law—hospitals are required to provide examination or treatment for emergency medical conditions, regardless of an individual’s ability to pay. Additionally, a range of State and Federal medical programmes provide coverage for low-income individuals and families. The result is that the per capita spending rate for individuals is the same for those above and below the poverty line.

One of the criticisms commonly made about the US system is the amount of money Americans spend on health care. Australians often refer to the lower percentage of GDP that is spent on health care in Australia as a mark of the excellent management of the Australian system. Australians often refer to the lower percentage of GDP that is spent on health care in Australia as a mark of the excellent management of the Australian system. The first point that ought to be made here is that the percentage of GDP that is spent on health care should not be decided centrally. The person best able to decide the proper proportion of his assets to spend on health care is the individual—not the State that taxes citizens into a condition where they have little or no disposable cash and then decides for them what proportion of their assets will be spent on what services.

Second, the fact that people spend more on health care doesn’t matter—provided people get what they pay for. If spending less was better, then the best system would be one where nothing at all was spent.

Moreover, the principal reason that the US spends a greater percentage of GDP on health care is that it supplies more of what US economist Arnold Kling refers to as ‘premium health care’—high cost technology and pharmaceuticals, ‘super specialist’ physicians and super treatments. Those countries that have lower health care expenditures have a smaller investment in technologically advanced care. In Australia, the lower percentage of GDP is in no small part due both to the limits placed on available services as well as to the reduction in capital stock.

Most of the world’s best doctors and facilities are to be found in the US. As Cato Institute scholars Michael Cannon and Michael Tanner report:

In the past 10 years, 14 of 25 recipients of the Nobel Prize for Medicine have been US citizens. Four more practice in the United States. American research and development, particularly in the pharmaceutical field, has produced the majority of medical breakthroughs over the past 50 years. Of the 152 major medicines introduced worldwide over the past 20 years, US companies developed nearly half. Eight of the 10 top-selling drugs worldwide in 2002 were produced by US firms, and Americans played

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a key role in eight of the ten most important medical advances in the past 30 years. As for facilities and technologies, when compared with its neighbour, Canada, on which Australia’s system is modelled, the much less socialised US system has eight times more MRIs (magnetic resonance imaging units), seven times more radiation therapy units, six times as many lithotriptors, and three times more open-heart surgery and cardiac catheterization units per patient. There are more MRI units in the state of Tennessee than in the whole of Canada.

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Spending more money on technological advances, while not always affecting outcomes, is generally a good investment. For example, the mortality rates from breast, prostate and colon cancer in the US are very much lower than in Australia (or anywhere else for that matter). According to Cannon and Tanner, ‘every additional dollar spent on treating heart attacks yielded the equivalent of $7 worth of increased longevity and quality of life’. Similarly, Lichtenburg estimates that the benefit-cost ratio of general medical expenditures is nearly 14 to 1 while the ratio for pharmaceutical research and development is more than 100 to 1… at the same time technology often lowers prices. The inflation- and quality-adjusted price of treating heart attacks declined at a rate of just over 1 per cent each year from 1983 to 1994. Other studies have found similar effects with prices for cataract surgery and depression.

This is not to suggest, of course, that wastage does not occur in the American system or would never occur in a perfectly competitive system (if such a system were possible). While spending less money is clearly not always a good thing, spending more money is clearly not always good either. Less benign contributory factors to increased costs in the US are the much greater cost of malpractice litigation, and the effect that the current tax bias favouring excessive health insurance has on total health expenditure. Nevertheless, the costs of litigation, of pharmaceuticals and of free-riders (the uninsured who obtain health care on an emergency basis for which others pay) amount to less than one-half of one per cent of GDP when total health spending is 15 per cent of GDP.

The higher American expenditures are also related to the fact that, the wealthier people are, the more money they spend on health care—in much the same way in which the environment generally only becomes a concern when people are wealthy enough to worry about it.

The other problem with undercapitalization and the increased demand in systems with ‘free’ (or heavily subsidised) services is the inability to gain access to whatever services are available. The unavailability of services in the socialised Canadian system has meant that the risk of dying on the waiting list for cardiac surgery is greater than the actual operative mortality. In just one year, the Canadian province of Ontario removed more than 120 coronary bypass surgery candidates from its waiting list because they had grown too sick to benefit from the procedure.

Similarly, in the nationalised British health system, each year about 9,000 patients fail to receive renal dialysis or a kidney transplant and die as a result, about 15,000 cancer patients and 17,000 heart patients fail to receive up-to-date treatment and 7,000 elderly patients are denied hip replacements. At the end of 2001, 43,900 British patients, many of them needing hip or knee replacements, had been waiting for more than a year for surgery. The London-based Adam Smith Institute estimates that people currently on the NHS waiting lists will collectively wait about one million years longer to receive treatment than doctors deem acceptable.

While only about 5 per cent of Americans have a wait of more than four months for surgery, the figure for Australians, New Zealanders, Canadians and Britons ranges from 23 per cent to 36 per cent.

Similarly, in a study by Canada’s Fraser Institute, it was found that, in 2003 in that country’s system, the median waiting time from referral by a general practitio-
per patient in hospital wards, the higher salaries paid to medical specialists, and an excess of supply which eliminates most of the need for surgical queues.

These measurement differences also play a role in two other common criticisms of the American system. Despite spending such a high percentage of GDP on health, it is often claimed that the US fares poorly on measures of infant mortality and life expectancy.

Although how a nation spends its health dollars is certainly important, we cannot learn much from the way in which these particular factors are commonly examined. Cross-nation comparisons often do not measure the same thing. Live births, fetal deaths and infant deaths are recorded differently in many countries. The US, for example, includes extremely low-weight infants in its measure of live births. If the survival of infants of a given birth weight is measured, the US actually outperforms other nations.

There is, moreover, little correlation between life expectancy and health expenditures across countries. For example, Korea and Turkey spend roughly the same percentage of GDP on health care and yet the life expectancy of Turkish females is about 10 years less. Even the actual amount spent per person on health care shows little correlation with life expectancy. Japan and the UK spend about the same per person on health care, but life expectancy in Japan is about five years longer than in the UK. Average life expectancy tells us virtually nothing about the quality of the health system.

Furthermore, as Arnold Kling points out, not only are the statistical gains in longevity attributable to the operations of the health system relatively small at the margins, but aggregate longevity is affected by deaths in which medical intervention would make no difference (e.g., homicides and traffic fatalities), by behavioural factors (e.g., smoking and nutrition), and by circumstances at birth and early childhood (e.g., genetic factors), regardless of subsequent health care. The effect of health care spending on longevity is dissipated further by the fact that some medical treatments are dedicated solely to relief from suffering. From a longevity perspective, every dollar spent on relief from allergy symptoms, pain, depression, disability, or discomfort is ‘wasted’.

Demonstrating the influence of genetic

**Recent major technological advances in medicine**

**MRI (Magnetic Resonance Imaging)**
A radiology technique that uses magnetism, radio waves, and a computer to produce images of body structures. It is useful for imaging of soft tissues such as the brain, spinal cord, muscles and ligaments and detecting abnormal tissues such as tumours. During an MRI Scan, the patient lies on a moveable bed within a strong magnetic field.

**Cost:** Over $2,000,000 per unit. $10,000 per month in upkeep.

**Selective serotonin reuptake inhibitors (SSRIs)**
A class of antidepressants that affect the chemicals that nerves in the brain use to send messages to one another. SSRIs work by inhibiting the ‘reuptake’ of serotonin, an action which allows more serotonin to be available to be taken up by other nerves.

**Cost:** Over $100 per patient per month. Treatment is normally for 12 months but can be indefinite.

**Tamoxifen**
A Selective Estrogen Receptor Modulator (SERM). It is used for the prevention and treatment of early and advanced breast cancer. Tamoxifen has very weak estrogen activity. In the bloodstream tamoxifen takes the place of the body’s natural estrogen cells and binds with many types of breast cancer cells therefore blocking estrogen-simulated cancer cell growth.

**Cost:** Mean cost per patient is over $8,000 across their lifetime.

**Statins**
A type of drug used to lower LDL-cholesterol levels in people suffering from, or who are at risk from, cardiovascular disease. Statins inhibit the enzyme HMG-CoA reductase which controls the rate of cholesterol production in the body. These drugs lower cholesterol by slowing down the production of cholesterol and by increasing the liver’s ability to remove the LDL-cholesterol already in the blood.

**Cost:** Over $400 per patient per year. Treatment averages 1-2 years.

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Unavailability of services in the socialised Canadian system has meant that the risk of dying on the waiting list for cardiac surgery is greater than the actual operative mortality.

The average US life expectancy of 74.1 years is, therefore, a composite of the contributions made by each of these groups. The different life expectancies of these groups cannot be explained by variations in group access to health care either. If, for example, we look at the Japanese in Japan, we find that they have the longest life span of any industrialised country—78.6 years, or three years longer than for Americans. If, however, say Goodman et al., it was the American health system that was the major contributor to shorter life spans, we would not expect the Japanese in America to live as long as their counterparts in Japan. But they do.

So while the monetary costs of US-style health costs may be higher (and even this is doubtful, particularly when allowance is made for higher American wages) the rationing in more heavily socialised systems, by denying access to particular treatment modalities or by increasing waiting times, produces serious costs of a different kind.

Furthermore, to the effects on morbidity and mortality caused by budgetary restraints must be added the fact that whatever is actually provided in more socialised systems is inevitably provided at a higher cost than the equivalent services provided by private industry. That patients believe that they are able to obtain cost-effective treatment in the US is demonstrated by the large numbers of patients who come from all over the world in order to access American facilities. Cannon and Turner report that:

the Mayo Clinic treats roughly 7,200 foreigners every year. John Hopkins University Medical Centre treats more than 6,000. Nearly one-third of Canada’s doctors have sent a patient abroad for treatment, often to the United States, and Canadian governments and patients spend more than $1 billion every year on medical care in the United States.

Obviously, in purely utilitarian terms what we would like to achieve in our health care system is the lowest amount of overuse of services while at the same time achieving the smallest disincentive to seeking necessary care. A universal public system is based on the egalitarian belief that not only do poorer people deserve a standard of health care that is greater than they can afford with their current incomes, but that they should have a standard of care no different from that of the more wealthy members of the community.

With that belief, however, comes a crippling distortion of the balance between over- and under-use.

On the other hand, private health insurance schemes are not only far more morally acceptable, they are best able to achieve this utilitarian balance—because there is a significant incentive not to overuse the system: the cost is fully (or substantially) borne by the patient and his insurer (the cost of the premium and any co-payment).

Those who cannot afford to insure become (principally) the subject of private charitable efforts.

A private system does not prevent the most productive members of society from gaining one of the most important rewards (increased access to health care) of their increased productivity, and it improves the likelihood of the development and wider availability of innovative technological improvements (given that expensive technologies are initially financed into existence by wealthy individuals and become generally available as their price progressively falls). This is a legitimate method of redistribution in which the rich suffer price discrimination in order to gain first access, with the not-so-rich benefiting from the resultant more widespread use of the technology.

A private system also provides a wider range of health care choices, rather than the one-size-fits-all formula of universal schemes.

The American system does not deserve many of the brickbats it commonly receives. It is, however, hardly a shining example of the free market at work and, as in Australia, it is becoming less so. It would be nice to be able to say that the American inclination to resist overbearing authority and the willingness to try ideas such as Medical Savings Accounts gives some hope for the future. The logic of the democratic system, however, suggests otherwise.
Ferdinand de Lesseps, having masterminded the building of the Suez Canal, set out to build the even more ambitious Panama Canal.

It was a highly risky venture, traversing seasonal, tumescent rivers and a huge mountain range. There was no ready supply of skilled labour nearby and all the equipment would have to be shipped half-way across the world to an area where tropical disease took a major toll of the locals’ lives and would be even more threatening to those with no natural immunity to it.

Having raised the funds, he then consulted the Australian Competition and Consumer Commission (ACCC) to ensure that the project would at least have a smooth regulatory passage.

The ACCC Regulator discussed with him the legislative environment, particularly Part IIIA of the Trade Practices Act. This, The Regulator said, had reinvigorated the use of infrastructure by bringing under regulatory oversight instances where it was ‘uneconomical to develop’ something to provide the same services. He explained that this had extended such oversight from the previous, more limiting level, which only permitted oversight to facilities that were ‘impractical to duplicate’. It had also allowed the transfer of such facilities from government to private ownership where they were generally run more efficiently.

The Regulator told him how the ACCC and its sister agency, the National Competition Council, had presided over an unprecedented upsurge in infrastructure development. Although there had been no canals lately, there had been extensive development in rail, in ports, in gas pipelines, in grain silos and in the new branch of telegraphy. Indeed, The Regulator said that, without astute and sympathetic regulators such as himself, the private sector would not have the

Alan Moran

Alan Moran is Director, Deregulation Unit at the Institute of Public Affairs
confidence to build these risky ventures, since it was the regulators who ensured that the returns were fair and attractive.

With regard to the Panama Canal project, The Regulator said, ‘An excellent idea, M. de Lesseps, and once it is built we will ensure that we allow you a price that fully covers your costs and allows a good profit’.

As a former diplomat, M. de Lesseps was reassured by the support of such a prominent man, who himself had been a merchant banker and was said to have the ear of the highest echelons of government. There was, however, a nagging concern in the back of his mind when he recalled the resistance he had met from the three backers who had put up the funding for the project, who were not looking at the expenditure to promote the greater good of mankind, but to maximise profits.

His backers, though, were not the stereotypical ruthless top-hatted capitalists. The backers had earlier explained to M. de Lesseps that the money was, in the main, not their own. It belonged to a whole host of people, most of whom were not well-off, but who had entrusted it to themselves to build a comfortable nest egg for their retirements.

These three backers also had a deep mistrust of governments, which they had seen time and again interfere with profitable opportunities. Indeed, governments seemed only to be held in check by the fear that, if they went too far, financiers and talented people would seek to invest their resources and skills in other countries.

And as a diplomat who had acquired some engineering skills, M. de Lesseps himself wondered what it was that the regulator brought to the table that actually assisted in the wealth-creation process.

‘Ah’, said The Regulator, ‘I understand your concerns and those of your backers. In allowing a price and access condition to your canal on fair and reasonable terms, we give an assurance that it will be profitable’. Relieved, M. de Lesseps went back to his three backers with the good news.

His three backers complimented M. de Lesseps on his track record in major projects and said that this was why they were in for the long haul. But they still had some misgivings.

The first backer worried that:

In spite of your proven skills, M. de Lesseps, this is a project that has a considerable capacity to fail. The river which much of the Canal traverses might prove too swift, the mountains might not be levelled and too many workers might find themselves up to their necks in alligators. In this latter respect, those pesky folk from occupational health and safety are already complaining about the workers’ death toll from yellow fever and some even want to introduce personal liabilities on directors with criminal penalties; it is rumoured that The Regulator himself is sympathetic to such moves.

Have you considered the opposition from environmentalists? Many resist trees being chopped down and are busy looking to find an obscure species unique to the area which they could claim was being threatened, a matter that, under international treaties, would stop the project in its tracks. There is little likelihood of a unique species, but I have heard that some environmentalists are seeking to stop the project by claims of the existence of some ‘unique ecological communities’ that would be disturbed; others, I hear, are arguing that the construction of an artificial water barrier between the two Americas would have long term deleterious consequences in preventing the same species from interbreeding from the north and south.
The second backer had some further qualms:

How sure are we that your economist’s projections of the volume of traffic from the east to west coast of North America are accurate? In those respects I am mindful of the competition from railroads and we have even heard of new inventions—the motor car and the airplane—that some futurists are predicting will take a great deal of the passenger business.

While these downside risks do not dissuade me from investing, I wonder if we could get some more assurances from The Regulator about the regulations he intends to put in place. In this respect, a crucial issue is price. For me, the ideal price for the facility is one that is just a little below the savings that are made from avoiding the hazardous 18,000-mile trip around Cape Horn. At that price, the users are better off and so are we, the investors, and perhaps in the future we could experiment with some further price reductions to stimulate the volume of trade and to counter competition.

The third backer was quite conservative with his investments:

Call me greedy if you wish, but the people who have entrusted money with me get quite vexed when they lose it, and I could name colleagues who have lost their fortunes as a result of losing money on behalf of clients. We are in a business that has a lot of commercial risk. Inevitably some projects fail and those that are successful need to more than recoup the losses.

It is like the mining industry or the music publishing business. For every successful hole drilled or every hit piece of sheet music, there are ten that fail to make the grade. We have to count on making a lot of money on the successes.
Armed with these thoughts, M. de Lesseps again approached The Regulator to argue that the project not be subject to regulatory control. The Regulator, however, said that he could not offer such prior assurances and was in fact surprised that the backers would want such high returns in any case.

He said, 'I would consider reducing the level of oversight if another couple of canals along exactly the same route were to be built. That way, I can be certain that the level of competition, for which the ACCC is a proxy, would work as it does in many other industries'.

But, he added, 'The canals must be parallel and must each serve similar customers and suppliers'.

Even so, he suggested that M. de Lesseps proceed. He said that if he did not do so, there were many others who would—and without requiring additional assurances. He named a consortium of international canal financiers who had been active issuing press releases. He also added, 'You know it is by no means certain that the canal is actually the best use of the nation's scarce resources, especially in view of the rapid advances in horse strength that is improving overland travel, the impending invention of the airplane, the new telegraph system which is reducing the need for travel, and the rail systems snaking their ways across North America'.

He went on to say that some of these services also constituted essential facilities and he would be looking to ensure that they gave fair access to all users on fair price terms.

M. de Lesseps then began to wonder, in view of such competitive pressures, why The Regulator was so insistent on requiring the facility be regulated. The Regulator responded that the alternatives comprised a different sort of competition from that of parallel canals, and reiterated that he should not worry because the ACCC was jam-packed with some of the nation's brightest and they would ensure his firm would be well treated.

Two of M. de Lesseps' backers were somewhat encouraged to learn that the other cross-continental facilities would also be regulated—this measure would place constraints on the competition.

However, the more conservative backer was less relieved, seeing the moves as an across-the-board restraint on innovative services that would 'drive the entire country to the dogs'.

Epilogue

Eventually M. de Lesseps’ company ran out of money. The international canal financiers never appeared to take his place. It was the US government itself, under the bellicose President Theodore Roosevelt, that corrected this 'market failure' and built the canal.
Despite long and expensive inquiries, thousands of eye witnesses, and conclusive video, sound and picture evidence, more than five years after the attacks, sceptics continue to challenge every part of the official story of what happened on 11 September 2001.

Unsourced photos, quotations taken out of context and confused eyewitness accounts have inspired complex and often bizarre conspiracy theories.

Rather than a terrorist attack, on that day in 2001 the Pentagon was in fact struck by a missile, the World Trade Center buildings were brought down by a controlled demolition, Flight 93 never actually crashed, and some of the hijackers are still alive in Pakistan—a logistical feat planned and executed by the U.S. government using remote-controlled planes.

The investigation into the death of Princess Diana continues nearly 10 years after the accident. All sorts of theories have surfaced: from Diana’s alleged pregnancy, her driver’s blood alcohol reading, and Paparazzi and Royal family involvement in her death. It is, apparently, too hard for some people to believe that a Princess could have died in a simple car crash.

The most famous alleged conspiracy of the last 100 years—and one about which seven out of ten Americans remain sceptical—was the assassination of U.S. President John F. Kennedy in 1963. From CIA involvement, to a second gunman on the grassy knoll, the incident has become one of the most reviewed in history.

Since then, the public has developed an enthusiasm for conspiracy theories that has been reflected through popular culture with hits such as the X-Files, and movies and books such as The Da Vinci Code. Scandals such as the Watergate affair have only fuelled the public’s passion for often bizarre and baseless theories. Most notably, in Australia, there have been persistent claims that Australian Prime Minister Harold Holt didn’t drown in the sea off Point Nepean in 1967, but was in fact taken by a Chinese submarine.

**S11: An Inside Job**

For all the different September 11 conspiracy theories that exist, they generally fall into two categories. Either U.S. government agencies knew that the September 11 attacks were going to occur and failed to act, or, alternatively, the govern-
Each piece of evidence seen individually may be obviously fake or naïve, but the whole is far more convincing than the sum of the parts.

In The 9/11 Commission Report is not only false but provably false and in crucial respects physically impossible. That the official account of 9/11 is a lie and that 9/11 appears to have been an inside job is no longer a matter of serious scientific debate.

Problems with Credibility

Many of the ‘experts’ used by the Scholars and other conspiracy theorists to explain why it would be impossible for the World Trade Center to have collapsed the way it did, have very little scientific training—apart from watching a couple of cheaply produced videos on the Internet.

Conspiracy theorists cooperate tightly, despite the contradictions that may arise. One theorist who claims that a missile was fired into the Pentagon will associate himself with another theorist who thinks that a remotely controlled plane flew into the Pentagon.

With every new video posted on YouTube, or book published, or website launched, there arise new opportunities for the theorists to quote each other and proceed to find supporting evidence for their theory. At this point, science and conspiracy theory split. Whereas science makes an evaluation of the truth based on all the available evidence, conspiracy theories generally look for evidence to support conclusions that have already been ‘established’. Other evidence is either ignored or discredited.

For the conspiracy theory to gather...
Theorists often connect unrelated information and sources.

a popular following it needs to explain elements of the story that the official account is unable to explain easily to a lay person. In the case of 9/11, it was strange that World Trade Center building 7 also collapsed, despite not being directly hit in the attacks. Similarly, many find it strange that the Pentagon was so easily attacked, and even more bizarre that not one of the planes was shot down by the military. Many people also find it impossible to believe that the World Trade Center could fall in such a uniform fashion without that being the result of a controlled demolition. The most popular theory claims that the hole in the wall of the Pentagon seems to be too small considering that a 747 was meant to have crashed into the building.

What makes matters difficult for conspiracy theorists is that they need to build a complete, alternative explanation of all events. This includes gathering evidence. Often the theorists will base their evidence on early news reports that have been retracted. They also often connect unrelated information and sources.

September 11 conspiracy theorists, for instance, claim that the World Trade Center buildings could not have collapsed because of a plane impact as temperatures inside the building would not have been high enough to melt metal. This is true, but is disingenuous. Although it is true that steel's melting temperature is 1,500 °C and that temperatures in the World Trade Center would not have likely exceeded 1,100 °C, steel that is heated to over 1,000 °C softens and is reduced in strength to 10 per cent of its room-temperature value. They also fail to look at factors such as the internal damage to the building support structures and fire-proofing insulation.

Government Motives

But the details of a conspiracy theory are more often than not secondary to establishing a motive. In this regard, the September 11 conspiracy theorists have their work done for them thanks to the subsequent War on Terror.

In September 2000, the American think-tank Project for the New American Century produced a document called *Rebuilding America’s Defences: Strategies, Forces and Resources for a New Century*. The document argued for a dramatic build-up in U.S. military spending but warned that the transformation was 'likely to be a long one, absent some catastrophic and catalyzing event—like a new Pearl Harbor'.

According to conspiracy theorists, this document provides proof that neo-conservatives had the motive to carry out a large-scale attack on America so that they could use it to justify increased military spending by the U.S. government. September 11 was used as a convenient opportunity for neo-conservatives to push this military build-up on an enraged American public. The subsequent wars in Iraq and Afghanistan, as well as the increased military and intelligence spending, restrictions on civil liberties, and large contracts for firms such as Halliburton in the Middle East, are all used as evidence to support this case.

Operation Northwoods

While many people would think that it is crazy and offensive to suggest that the U.S. government would attack its own citizens to pursue domestic and international policy interests, theorists claim to have evidence of a CIA plan from the 1960s that shows that the Government is capable of such an act.

In March 1962, during the Kennedy Administration, a plan known as Operation Northwoods was approved by the Joint Chiefs of Staff and presented to Kennedy's Secretary of Defense, Robert McNamara. The plan was aimed at generating U.S. public support for military action against the Cuban government of Fidel Castro. It was suggested that the military take part in various ‘false flag’ actions, including simulated or real state-sponsored acts of terrorism on U.S. and Cuban soil. These attacks would be blamed on Castro and the U.S. would use them as a justification to attack Cuba.

Although the plan was rejected by the Kennedy Administration, conspiracy theorists use it as evidence that the U.S. government is at least capable of such a plan.

September 11 conspiracies all suffer from serious factual and logical flaws. How could anyone have possibly prepared a controlled demolition in the World Trade Center without being noticed? Why would the government go to so much trouble planning such a complex conspiracy using foreign terrorists? Why were black-box recorders and bodies found at the Pentagon if a 747 didn’t crash there?

September 11 is the most watched event in history and one of the most important events of our lifetime. The 9/11 Commission produced a 571-page report that explains the events in full. The National Institute of Standards and Technology also produced 10,000 pages of evidence on how and why the World Trade Center buildings collapsed the way they did. It could find ‘no corroborating evidence for alternative hypotheses suggesting that the WTC towers were brought down by controlled demolition using explosives planted prior to September 11, 2001’.

It is said that Napoleon once remarked, ‘Never ascribe to malice that which is adequately explained by incompetence’. Certainly there is strong evidence to suggest that there were serious errors made by the Bush and Clinton Administrations in the lead-up to the September 11 attacks. But suggestions that the United States Government, or aliens, or the X-Files’ Cigarette Smoking Man, were involved in the tragic events of our past have little basis in reality—even though they might feed some deep-seated psychological need for operatic complexity.
Who are more likely to be more compassionate when it comes to giving money and doing things for other people: conservatives who believe in cutting taxes and reducing welfare or liberals (in the American sense) who want to increase taxes and welfare?

Well, it certainly isn't liberals who, according to Arthur C. Brooks' new study, *Who Really Cares*, are much happier spending other peoples' money than donating their own.

Brooks has analysed the data about giving in America and the results are not at all what he initially expected. He initially believed, like many academics, that conservatives were cold and lacking in compassion, while liberals were, in terms of their giving, liberal.

Instead he discovered that 'conservatives are, on average, more personally charitable than liberals'. This does not mean that all conservatives are more charitable than all liberals or that all conservatives are charitable. Seventy-five million Americans, or about a quarter of the population, never give money to charity; some of them are conservatives.

However, on average, if one encounters a conservative, not only will he or she be more likely to give to charity, but he or she will also be more likely to give more than a comparable liberal. Moreover, donors to charity are more likely to volunteer to give their time, their blood, are more likely to give money informally to family and friends, and are also more likely to be tolerant and sympathetic than non-givers.

For the most part, givers do not give for the selfish reason of wanting to receive a tax deduction; some 96 per cent of volunteers give because they 'felt compassion toward other people'. At the same time, members of the working poor are more likely to give money to charity than a member of the middle classes.

What Brooks presents is a picture of givers who are compassionate, generous and more likely to be of the Right than the Left. Why should this be so?

The simple answer is that it is not political orientation that matters in looking for those who are likely to give to charity. As he puts it, there are four forces primarily responsible for making people charitable: 'religion, scepticism about the government in economic life, strong families, and personal entrepreneurism'.

It is simply that the people who have these characteristics are also more likely to be conservative in their political orientation.

Giving to charity is a practice that is taught by parents to their children and is an expression of a particular culture. Religious people give more because of the traditions of giving within the major world religions; poor people are good givers because they have a much greater likelihood of being members of a church that tithes. And, it should be pointed out, people from a religious background give more to both religious and secular charities, as well as being more generous with their time.

It is when those cultural traditions break down in the modern world—when families disintegrate and individuals adopt a more secular approach and when they move onto welfare—that the practice of giving declines. Instead, these secular individuals begin to look to the state rather than themselves as the source of charity.

It should come as no surprise to learn that Europeans are much less charitable than Americans, both in terms of giving money and volunteering. Europeans are not only less likely to go to church and profess a religious faith, they are also more likely to be hostile to religion. They are also more likely to suffer from unstable family conditions, as is shown by their low birth rate, and more likely to believe that it is the government's job to redistribute income.

Brooks does not discuss Australia, which from our point of view is a pity. Nevertheless, his general arguments probably apply just as much to Australia as they do to America and Europe.

The Left tends not to believe in charity but in what it calls 'justice'. By justice it seems to mean that the task of looking after one's neighbour should
be taken away from individuals and placed in the hands of the state. This often means that individuals of a leftish persuasion are not personally very charitable—in fact, they have an aversion to helping other people except in the special case of offering them advice about how the government should do more. They replace actions, and money, with words.

A world in which ‘justice’ had completely replaced charity would be a cold and heartless place composed of uncaring individuals dependent on the state.

That is not to say that we could have a tolerable world that relied entirely on charity; human beings are not angels.

Nevertheless, as Brooks argues, there is a lot to be said for a community that maximises the charitable potential of its members. Charitable people seek opportunity rather than forced equality, and the act of charitable giving has a positive impact on their personal development. People who give are more likely to be personally happy, to enjoy good health and to involve themselves in political activity.

Essentially what Brooks is arguing is that charitable giving, both in monetary terms and volunteering, is a life-enhancing activity that reinforces, and is reinforced by, other forms of activity such as family life and religious belief. These activities are central to any society that wants to maintain a healthy, well-functioning democracy.

Brooks argues that we should be looking at ways to maintain and increase charity. He advocates that parents provide a role model for their children both by giving and by ensuring that they understand that giving is their personal responsibility, not that of the government. Children, he argues, are more likely to learn charity in a religious environment.

Brooks also wants the state and its bureaucracy not to provide disincentives for giving and volunteering. The new obsession with such things as risk management and occupational health and safety often discourage people from giving their time.

What emerges from this study is that a vibrant democratic society is one in which people willingly give in order to help others. People give because they see giving as the flip-side of achieving. In other words, the stereotypical picture painted by the Left of entrepreneurs and business people as a collection of gradgrinds could not be further from the truth. The really miserable and sour members of modern society are those on the Left who are too mean to give, but who spend much of their time arguing why the state should spend other peoples’ money.

Flannery of the Overflow

William York

I HAD written him a letter which I had, for want of better Knowledge, sent to where I met him on the Murray, years ago, He was boating when I knew him, so I sent the letter to him, Just on spec, addressed as follows, ‘Flannery, of The Overflow’.

And an SMS came directed from a source quite unexpected, (And I think it was dictated from a river bank or bar) ‘Twas the Prime Minister who wrote it, and verbatim I will quote it: Flannery’s gone all atmospheric, and I don’t know where we are.’

With Australia Day flattery, visions come to me of Flannery Gone a-driving ‘down to Canberra’ where the politicians go; With the journalists and stringers, Flannery pointing with his fingers, draws a future of disasters none of us will live to know.

And the Greens come out to meet him, and their kindly voices greet him While the politicians ponder an election to be won, And he sees the vision horrid of our country turning florid, With a baking sun, a rising sea and little being done.

Gazing up at Kirribilli, I wonder will the ‘Silly Season’ finish with a whimper or a bang Will we all start getting warm, or is this the perfect storm, Orchestrated by Al Gore and echoed by the noisy local gang.

It seems to me Prime Minister that there is something here quite sinister In the push to get our economics in a great big melting pot. With the present calls for action, you will need to find some traction For ideas that cool the hot heads so we don’t destroy our lot.

William York is a failed financial journalist.
There’s a saying about the Cold War. ‘The right side lost, but the wrong side won.’ This is the attitude of most Australians writing about their country’s foreign policy. This is not to say that it’s the attitude of most Australians. It’s just that in this country practically anyone who puts pen to paper about international affairs comes from an instinctively anti-American position. What passes for foreign policy analysis is usually little more than a recounting of America’s sins, which are variations on a theme: America is too rich, America is too unilateralist, or America is too imperial.

So if being American is bad, being an ally of America is just as bad.

Greg Sheridan is different. For more than a decade as Foreign Editor of The Australian newspaper he has consistently supported freedom for individuals, and liberal democracy for nations. He’s never believed that the economic and political privileges we have in ‘the West’ should be confined only to those lucky enough living there. What’s more he’s been prepared to support those who argue that the West has a moral obligation to do what it can to spread liberal democracy. This makes him almost unique in Australia. And it places him at odds with those in the domestic foreign policy establishment who, if they had to choose, would prefer the countries they deal with to be predictable rather than free.

At the same time though Sheridan is realist enough to appreciate Australia’s alliance with the United States is not a product of convenience or an inferiority complex. The alliance has been supported by both major parties because its maintenance is in Australia’s national interest.

The philosophical perspective from which Sheridan approaches the alliance is made clear early in The Partnership. Sheridan presents his case honestly and sincerely.

One of the reasons I always hated Marxism, which was fashionable when I was an undergraduate, was because of its determinism: its view that history had an inevitable course that it must follow. I don’t believe anything is inevitable, and think that history is enacted, unpredictably, by independent human beings who made unpredictable judgments.

For all its sins, the United States has stressed in its founding and defining documents, in its highest public leadership, and in most of the life of the nation, qualities which accord with the deepest nature of human beings—liberty, self-determination, democracy, hard work, the rule of law, civic equality, religious equality.

The Partnership is presented as ‘the inside story of the Australia-US alliance under Bush and Howard’. Much of what Sheridan writes about in relation to the operation of the alliance, particularly regarding military and security operations in Afghanistan and Iraq is revealed publicly for the first time. The book has already become a vital source document on the alliance.

Many Australians would genuinely be surprised by the extent to which the American military rely on the skills of the Australian Special Air Service Regiment (the ‘SAS’). Sheridan uses Operation Anaconda to demonstrate the importance of military cooperation between the allies. Anaconda was a Coalition forces action against al-Qaeda and Taliban fighters in Afghanistan in February 2002 and if it had not been for the performance of the Australian SAS the mission would almost certainly have failed.

However The Partnership is important not only because of its detailed examination of the alliance. The book also provides an engaging and often engrossing account of the themes of Australia’s defence and foreign policy since the Second World War. Sheridan brings his vast practical experience and his deep learning to bear on questions such as whether we should have an ‘independent’ foreign policy, the failures of the ‘Defence of Australia’ doctrine, and the phenomenon of international terrorism.

The idea that Australia must have an ‘independent’ foreign policy is one of our nation’s great moral hypocrisies. To stand aside and to not become involved in a battle between two sides is effectively to condone the actions of both. For the last century this country’s foreign policy choices have been clear. ‘Independence’ was an idea pursued by Doc Evatt, La-
abor's foreign affairs minister of the 1940s, and someone who is still a hero to the Left. Evatt wasted no opportunity to display his 'even-handedness' between the Soviet Union and the United States. Notoriously, he defended the post-war imposition of Soviet totalitarian rule on eastern Europe as Stalin simply engaging in an act of self-defence. Evatt, like many of his conferees, was in awe of the sacrifices made by the Soviet Union during the Second World War and he was blind to the failings of communism, both in theory and in practice. He didn’t understand that the alliance of Roosevelt and Churchill with Stalin, was nothing more than an arrangement formed with one evil regime in order to defeat another evil regime.

In the Second World War it would have been unimaginable for Australia to have done anything other than what it did. Similarly during the wars in Korea and Vietnam it was in our national interest to intervene. The same applies to our battle with radical Islamism.

The ‘defence of Australia’ doctrine (DOA) is the modern manifestation of the sort of thinking behind an ‘independent’ foreign policy. Sheridan’s discussion and dissection of DOA is one of the highlights of *The Partnership.* Put simply DOA asserts that Australia’s only defence interest is to protect our own shores and therefore we don’t need an army because it will be the navy and air force that will stop potential invaders. As Sheridan says ‘This unnatural and frankly weird doctrine lead to many bizarre results’. Yet DOA was official policy under Labor, and under Kim Beazley as defence minister. The result of DOA was that the army was starved of resources. For example, when a coup occurred in Fiji in 1987 the then Labor government considered employing the Australian military to restore democracy.

Sheridan’s comment about Labor’s Fiji strategy is acute. ‘That [strategy] may in any circumstance have been a very problematic proposition, but it was entirely irrelevant because Australia had absolutely no way of transporting the troops there and mounting any kind of operation.’

Very perceptively Sheridan unpacks the ideology behind DOA. It was based on the myth that in 1942 Labor prime minister John Curtin ‘brought home’ the troops to protect Australia, rather than having them overseas to protect Britain’s imperial interests. Sheridan notes that of course those troops that were ‘brought home’ were actually sent overseas to New Guinea. ‘But the myth served the Labor Right well, because it allowed them to steer the Labor Left away from outright pacifism and to maintain some defence spending, rather than abolishing almost all modern defence capabilities in the mode of New Zealand’.

Sheridan’s final remarks in *The Partnership* about the Australia-US alliance are accurate: ‘In a naughty world, it is a candle in the darkness.’
REVIEW

Dissent in the herd

Andrew Kemp reviews The Elephant in the Room: Evangelicals, Libertarians and the Battle to Control the Republican Party by Ryan Sager (Wiley, 2006, 256 pages)

Ryan Sager’s The Elephant in the Room ends with an interview with the former Republican Speaker of the U.S. House of Representatives, Newt Gingrich.

‘I think the Republican brand is in trouble’, argues Gingrich. ‘The party is confused as to its identity’.

Written by a Republican sympathiser, Elephant is an attempt to explain what has led to this unfortunate conclusion by Gingrich.

This is a story of constant conflict, a tug-of-war that involves libertarians pulling for individual freedom, economic and social, and the ‘Religious Right’, pulling for the age-old traditions of ‘family, personal safety, and middle class financial security’.

What has kept these two factions, seemingly polar-opposite groups, together? Sager describes it as ‘fusionism’, a concept originally created by Frank Meyer, a former editor of the National Review and libertarian thinker, who saw a role for small government in preserving the moral foundations of society that were so strongly emphasised by the traditional Judeo-Christian thinkers.

This powerful alliance, according to Sager, led to the ‘conservative revolutions’ of 1964 (Barry Goldwater’s presidential campaign), 1980 (Reagan’s ascendancy) and 1994 (the Gingrich-led House of Representatives).

What is now occurring is a political perversion of this fusion, which has given rise to the ‘conservative big government’ era of George W. Bush. No longer do Republican leaders endorse smaller government as the means to preserve moral values, but instead rely on the biggest increases in federal spending since LBJ, and on programmes and ‘reforms’ that offer minimal improvement at maximum cost.

Sager calls for a return to the original fusion—the one which worked so well in ’64, ’80, and ’94. The Republican Party thus far has moved ‘toward big government and away from small government. Toward politics and away from principle… toward moralism and away from morality.’ The party must roll back the moralising of the religious Right and re-embrace a more balanced form of fusionism.

The most notable thing about Elephant is the inability of the author to define conservatism properly. This is important, because, in Sager’s treatment, both libertarians and traditionalists fall under that label. He makes his strongest attempt in the second last page of the book—‘Conservatism, from its earliest days, has always meant a fusion between liberty and tradition, freedom and responsibility’. But isn’t this what the Democrat Party also believes? These generalisations are not pointed enough, and the argument cannot advance because of it. Sager would do well to read Hayek’s ‘Why I am not a Conservative’.

And yet, if conservatism to the Republicans means compromise on all fronts, then its supporters must accept the fact that they have to work under the compromise insisted upon by the most influential faction at the time. Fusion will always mean balance, but not everyone carries the same measuring stick.

The Elephant in the Room is at its best when it details descriptions of Bush’s policy failures—the ineffectiveness of the ‘No Child Left Behind’ reform, the drug benefit reform of 2003 that’s estimated to blow out by an extra $320 billion over 10 years, and the failure to reform social security.

As an attempt to provide a blueprint of the future, Sager is less clear. It doesn’t appear to have occurred to him that the original inception of ‘fusion’ may have laid the groundwork for the party’s own destruction, right from the beginning. While Frank Meyer may have thought that liberty and morality went hand in hand, many social conservatives do not. It is no surprise to see libertarians being tempted by the Democratic Party. Why not go with social freedom and big government if the only other alternative is social restriction and big government? Such a conflict was, perhaps, bound to happen.

Andrew Kemp is a regular contributor to the IPA Review.
Richard Allsop reviews
*A History of the English-Speaking Peoples Since 1900*
by Andrew Roberts
(Weidenfeld & Nicholson, 2006, 736 pages)

Presidents and Prime Ministers are busy people. So the fact that, in recent months, it has been reported that both George W. Bush and John Howard have been reading the same lengthy book might be considered surprising. In fact, the absence of any reports that Tony Blair has been a fellow reader is arguably more the surprise.

The reason for Andrew Roberts’ *A History of the English-Speaking Peoples Since 1900* being the set text for the ‘coalition of the willing’ is that, in many ways, it reads as a lengthy historical rationale for the positions of Bush, Blair and Howard in relation to the Iraq war.

Somewhat immodestly, Andrew Roberts declares that his purpose is similar to what Thucydides did in linking the various conflicts between Athens and Sparta into one great Peloponnesian War. Roberts argues that ‘the four distinct but successive attacks on the English-speaking peoples, by Wilhelmine Germany, the Axis powers, Soviet communism, and now Islamic fundamentalism ought to be seen as one overall century-long struggle between the English-speaking peoples’ democratic pluralism and fascist intolerance of different varieties’.

In recognising antecedent historians, Roberts is more obviously following in the footsteps of Winston Churchill, whose four volumes of *A History of the English-Speaking Peoples* were published in the late 1950s. There is a thematic similarity between the two writers in that both emphasise political history, but there are also significant differences.

Churchill stopped his narrative nearly half a century before his time of writing—Roberts has brought his as close to the current day as possible. While the fact that Churchill was writing about events including the English and American Civil Wars, the American War of Independence and the War of 1812 meant that he could hardly present the English-speaking peoples as a constant united force, Roberts has more symmetric interests to portray. Finally, their writing styles are very different. One critic wrote of Churchill’s work that ‘one would gladly have sacrificed some of the carefulness of narration—the product of many hands on many proofs—for a few more of Churchill’s own judgements on men and affairs’. In Roberts’ case the reverse very much applies—fewer judgements and more hands on the proofs would have made this a much better book.

Roberts’ penchant for passing judgement starts to grate after a while, especially as his hero-worship of some individuals, such as both Presidents Roosevelt, and his hatred of some others borders on the eccentric. Even when the issue is within the English-speaking camp and has no political overtones, Roberts will not let us make up our own minds—he adjudicates, for example, on which of Alexander Fleming and Howard Florey actually discovered penicillin.

The opinionated style also leads him to use lines that may be appropriate in certain contexts, but which jar in what is meant to be a serious historical work. For instance, he retrospectively ‘hopes that the great man (Franklin Delano Roosevelt) did indeed find some happiness with his lissom secretary’ and later, when expressing scepticism about the benefits of the US space programme, comments that ‘Osama bin Laden was deeply irritated that ‘the Infidels survived the blasphemy of walking on the moon’, so it wasn’t all money wasted’. There are also regular references to unusual bets between individuals at London clubs—a leitmotif that is both distracting and irritating.

More ‘hands on many proofs’ may have eliminated some of the book’s far too many factual or typographical errors. The Brighton bombing which almost claimed the life of Margaret Thatcher was not in 1985, Nelson Mandela was not released from gaol in 1994 and the Twin Towers were not bombed in 2003. There is no city called Phnom Perth, nor does one travel east from London to get to Herefordshire. An Australian proofreader may have pointed out that Joseph Chifley was universally known as Ben and that Menzies was not Prime Minister in 1938. At least Roberts does correctly say that the twentieth century started on 1 January 1901, not 1 January 1900.

There is no doubt that writing any sort of global or broad history of this type makes the maintenance of a smoothly flowing narrative a challenge, but others have done a better job than Roberts. Roberts constantly changes topics. For instance, readers are asked to consider the Mabo judgment in Australia, American eating habits, the 1968 US Presidential election, and Man’s landing on the moon all on just one double-page spread.

However, despite the fact that Roberts

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Roberts justifies every war undertaken by the English speaking peoples, from the Boer War to Iraq.

will probably not rank with Thucydidest and Churchill when one assesses histories, he has nonetheless produced a book which, despite its various faults, is eminently readable. His writing is never dull and, while he may present too many arguments, it must be acknowledged that he often manages to be both entertaining and persuasive, especially when contradicting many of the received wisdoms of the day.

He justifies every war undertaken by the English-speaking peoples from the Boer War to Iraq and comments that usually things start badly before victory is achieved in the end. The only times when victories were not achieved were Suez and Vietnam, both of which were failures of will rather than arms. However, in relation to Vietnam, he does note that the prosecution of the war, even though it ended in defeat, gave the countries of South East Asia an invaluable twelve-year breathing space in which to develop their societies peacefully. Ironically, the price of holding the Communist threat at bay in Vietnam has been decades of ridicule of the domino theory from the Left.

As well as defending causes that have been treated unfairly by history, Roberts is a great defender of unfairly maligned individuals. Given Roberts’ views on prosecuting wars to their conclusion, it is perhaps surprising that he wants to rehabilitate Lord Lansdowne, who sought a negotiated peace in 1917, but Roberts says that there were arguments in favour and that Lansdowne deserves credit for having pursued it ‘at the right time and in the right way’.

More predictably, Roberts seeks to rehabilitate Rex Dyer, the subject of a recent biography entitled The Butcher of Amritsar. Roberts says that while Dyer was responsible for the deaths of 379 people, his actions in ordering the 1919 massacre at Amritsar, in India, prevented the deaths of many more. Roberts’ argument on this incident foreshadows his justification of Hiroshima. In this regard, Roberts arguably achieves a consistency that eluded Churchill. Churchill shared Roberts’ view of Hiroshima but, in volume two of his history, condemned Cromwell for the massacre of 3,000 soldiers who refused to surrender at Drogheda in Ireland, despite Cromwell (like Dyer and the Allies in 1945) arguing that the example of their deaths produced a net increase in the number of lives saved.

Although most of Roberts’ book is devoted to the great assaults on the democratic West during the past 100 years, there is also some coverage given to economic issues, such as the Depression and the establishment of Britain’s welfare state. On the latter, he points out how, in the lengthy debates in Parliament as its establishment was being considered, only a minuscule amount of time was spent considering the issue of how it was to be funded.

There is very little social history in the work, although when it does appear, Roberts is sound. He refutes suggestions that American gangsterism between the wars was the result of laissez-faire capitalism, commenting that ‘since it arose largely through the gross restraint of trade involved in Prohibition, one might more profitably blame the rise of gangsterism on the nanny state’.

While the heroes of Roberts’ work are select leaders of English-speaking countries, the villains are not only the Kaiser, Hitler, Stalin and bin Laden, but ‘those amongst the English-speaking peoples prepared to appease, apologise for and even on occasion to laud and aid their mortal enemies’. Certainly the well-deserved attacks on those in this category provide the most entertaining feature of the book. As well as a myriad of British and American examples, Australians are not forgotten, with Wilfred Burchett, Manning Clark, Germaine Greer, and John Pilger all being recognised.

But it is not just those on the extreme Left who incur Roberts’ wrath. He particularly does not like Louis Mountbatten, John Major, Bill Clinton and almost anyone from Ireland. His vitriolic attacks on Ted Heath are classic invective.

While the references to the English-speaking countries beyond the United States and Britain occasionally seem a little contrived, he does sometimes work them into the main narrative effectively. In his discussion of Britain’s role in the European community, he captures the frustration of Australians standing in the foreigners’ line at Heathrow, while the nationals of countries who spent much of the twentieth century attacking English-speaking peoples breeze through the domestic line.

Before this work, Andrew Roberts was best known for his biographies of Halifax and Salisbury. While his transition to big-picture historian has not been an unqualified success, he should be commended for at least producing a work that goes some way towards rebalancing the history shelves of our bookshops and libraries that are currently weighed down by the tomes of Noam Chomsky, John Pilger and Tariq Ali.
Is it ironic that Wal-Mart has spurred a successful supply chain of criticism? One of Wal-Mart’s greatest innovations is its state-of-the-art logistical network that dramatically reduces the cost of delivering products from producers to consumers.

Criticism of Wal-Mart is not new. As with other successful big businesses and multinationals, it is the latest vehicle for ‘exposing’ the evils of capitalism, globalisation and the ‘exploitation’ of cheap, foreign labour.

The film Wal-Mart: The high cost of low price by producer Robert Greenwald is the latest contribution by the anti-business chorus. There is no ambiguity about the film’s agenda. The name says it all.

To counter the recent rash of anti-Wal-Mart sentiment, the American Enterprise Institute has released its monograph The Wal-Mart Revolution. The authors, Richard Vedder and Wendell Cox, soberly assess the role of Wal-Mart in the US economy, trying to write a fair-minded assessment of the benefits and ills of America’s largest retailer. The book was published following the release of the film and the authors use this advantage diligently.

Not surprisingly, the film and book differ in many regards. In style, the film is designed to be an easily consumable puff piece of resentful tales of Wal-Mart employees, consumers and social justice activists. The book is a justification for, and defence against populist criticism of, the Wal-Mart business empire.

As a piece of propaganda, the film rates highly. It successfully draws a linear relationship between the success of Wal-Mart at the expense of the environment, small business, subsidised healthcare and worker’s wages and conditions. The benefits are few and limited mostly to those at the top of the food chain, particularly the Walton family, who own the chain.

The book takes a very different approach. It is a didactic tale. Rather than lambasting readers with evidence and hearsay, it tells the story of retail and creative destruction in the industry. The book is written with a narrative that places its evolution and current business practice in context. The authors also provide a beginner’s lesson on economics for readers who do not understand the distinctions between consumer and producer surpluses and the theory of comparative advantage.

The book places Wal-Mart in its retail context, as part of a super-store industry that has developed over a decade. It reminds us that every time a business becomes overtly successful, from railways in the 1800s to Wal-Mart in more recent times, public scepticism leads to calls for the business to be regulated; and that that regulation acts as a hidden tax on the public. It is not a ripping yarn, but it puts Wal-Mart’s role and contribution in perspective. It leaves behind hysteria and emotive language to ensure that it communicates a consumable message which educates at the same time.

The book is much broader than Wal-
Tim Wilson reviews

**Wal-Mart: The High Cost of Low Price**

Robert Greenwald (dir.)
(Brave New Films, 2005)

**The Wal-Mart Revolution: How Big Box Stores Benefit Consumers, Workers, and the Economy**

by Richard Vedder & Wendell Cox

(AEI Press, Washington DC, 2007, 175 pages)

Mart alone. Its role in contextualising the growth of Wal-Mart ensures that the reader gains a primer in basic economics, retail history and globalisation wrapped into one.

The film, by contrast, strings together interviews with frustrated people who have had their lives in some way adversely affected by Wal-Mart. Obviously, they have nothing positive to say. No contribution of Wal-Mart’s to the community is shown: instead, viewers are hit with tale after tale of aggrieved individuals who have personal interests in an alternative to the status quo. It is the output one might expect when you cash-up unreconstructed university activists with a compassion surplus.

To be fair, the film should be recognised for what it is—produced solely to bash Wal-Mart. It successfully delivers an emotive and passionate image of the lives challenged by Wal-Mart’s shortcomings. You know you are not getting the whole story, but it doesn’t change the fact that you have sympathy for the ‘victims’.

Indeed, the notion of victimhood is central to the film’s message. Societal attitudes to victimhood seem to be legitimised when the decisions of the ‘few’ affect the ‘many’ for a personal benefit. Following the Kodak factory’s closure in Victoria some years ago, there were few tears for the factory workers who lost their jobs. Most people just shrugged, acknowledging that it was the result of creative destruction following the adoption of digital cameras. Yet Wal-Mart’s creative destruction does not attract the same ambivalence.

Sadly, the film also uses this footage to preach to entrenched prejudices against foreign workers. It is not just cheap Chinese labour, but Bangladeshi and Honduran labour as well—stealing American jobs and undermining employment standards back home. It is the same sort of hysteria in which Australian unions indulge when discussing the proposed Australia–China Free Trade Agreement.

In ascribing blame for people’s woes, apparently size matters. And not just in terms of customer base and turnover, but also in market capitalisation. The term ‘billion dollar corporation’ is often bandied around throughout the film to justify aggrieved persons’ expectations. It seems that once a business get over the billion dollar mark, its made enough money and should stop being hawkish in pursuing its—and its shareholders’—interests.

The book and the film do find some common ground over Wal-Mart’s acceptance of subsidies. It aptly demonstrates that Milton Friedman was correct when he remarked that businessfolk are often the worst enemies of capitalism. Wal-Mart, in some areas, receives subsidies as high as $2.3 million just to set up shop.

Of course, while they both share this distaste for subsidies, they do so for quite different reasons. The book criticises subsidies because they distort market outcomes. The film, on the other hand, is more concerned with the damage done to local business and by the fact that subsidies are not equitably shared. If one follows the film’s logic, at this point, Wal-Mart is the harbinger of all evil for local business.

The authors of *The Wal-Mart Revolution* use its post-film publishing date to include a chapter at the end titled ‘Critiquing the critics’, but it would have been more appropriately named ‘What’s wrong with that anti-Wal-Mart movie’. This section provides a powerful retort of *The high cost of low price*’s arguments, but, having covered most of this in the body of the book, it seems redundant to summarise it again. This is a common flaw in books written primarily to influence public policy debates—readability and flow is too often sacrificed to contend with all possible criticisms.

But, when contrasted with the conclusion of *The high cost of low price*, this is a minor flaw. The film tries to frame the crusade against Wal-Mart as religious in nature. The producers selected religious figures who opposed Wal-Mart and its role in society to tell viewers why the Wal-Mart empire was against Christian values. They then had opponents chanting ‘David beat Goliath’ after ballot measures knocked back Wal-Mart’s authority to establish stores in some counties. The final moments of the film show the word ‘Victory’ emblazoned across the screen. Please!

This was one of the core efforts of the film: to contextualise criticism of Wal-Mart within the framework of American conservatism. Waving flags and self-identified ‘conservatives’ were littered throughout it.

Yet, for all its proselytising about Wal-Mart’s abandoning America and its values, the DVD comes in a slip case that doesn’t identify itself as ‘Made in the USA’.
BLINDED BY THE SIGHT

Under a proposed Texan law, blind people will be able to hunt live game using firearms. Texas State Representative Edmund Kuempel has introduced a measure that would allow blind people, with the assistance of a sighted hunter, to hunt using currently prohibited laser sights.

Under existing state law, the use of laser sights, spotlights and headlights is prohibited because it can cause the animals to stand still. Such concerns will be overlooked, however, when the person holding the trigger is unable to see what they are shooting at. As a condition of the exemption, hunters will have to carry proof that they are legally blind.

Mr Kuempel said, ‘This opens up the fun of hunting to additional people, and I think that’s great’.

SEX ADDICTS NEED NOT APPLY

A 58-year-old man who was fired by IBM for visiting an adult chatroom at work is suing his former company for US$5 million.

James Pacenza claims to be an Internet and sex addict and believes that IBM should have helped treat him for his disorder rather than dismiss him.

IBM explained the termination by saying that the ‘Plaintiff was discharged by IBM because he visited an internet chat room for a sexual experience during work after he had previously been warned’.

Pacenza’s lawyer claims that he deserves protection under the Americans with Disabilities Act because he suffers from traumatic stress after seeing his best friend killed during the Vietnam War and that, as a result, he is ‘a sex addict, and with the development of the internet, an internet addict’.

GET A LIFE

Politically fuelled violence has erupted on the island of Porcupine in virtual world Second-Life. French party Front National has moved its offices after violent clashes with anti-Nazi protesters that involved gunfire and explosions in the world of Second-Life, which has over three million registered users.

A group calling itself Second Life Left Unity purchased land next to the Front National office, and said that it would be ‘manning a protest there until FN go or are ejected. Wherever fascists are, we will ensure they get no peace to corrupt and lie to decent people’.

Through sheer force of numbers, the protestors were eventually able to bog down the region of the French National headquarters and the offices were shut down.

APOCALYPTIC BEDTIME STORIES

The United Nations Environment Programme has produced a series of children’s books to teach the next generation about environmental issues such as global warming. In the latest book, Tore and the Town on Thin Ice, a small boy named Tore is inspired to take action to combat global warming after he loses a dogsled race because he falls through melted ice.

In the story, Tore is visited by an Inuit goddess named Sedna who tells him that ‘rich countries use—and waste—an awful lot of energy. Huge cars. Too many cars instead of efficient trains and buses’.

When Tore gets upset, after hearing from a polar bear that it is going to starve because of global warming, a whale calls to him saying ‘That’s the spirit! Get good and angry. You’ll need all that energy to make a difference’.

At the end of the story, Tore wins a dogsled race and thanks the goddess who visited him in his dream proclaiming, ‘I’m going to donate this money to buying solar panels and a windmill for our village’.

Tore and the Town on Thin Ice: Most people would be slightly more terrified if this happened to them.