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REVIEW

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From the Editor

MIKE NAHAN

HARDLY a day goes by without a report in the media of the need for corporate Australia to improve its act or face a public backlash.

On the other hand, the Australian public seems to be more enamoured with the corporate sector than ever. People are voting with their wallets *en masse* and becoming shareholders. They proudly festoon their clothing with corporate emblems. Business is far and away the most popular course at our universities and Bill Gates, Sir Richard Branson and Dick Smith are role models for many of our youth. Moreover, polling undertaken by Roy Morgan Research indicates a very high level of public confidence in the corporate sector. Indeed the corporate sector, as a whole, is rated higher by the public than all other institutions except the police and armed forces, and far higher than most of its critics. Polling does show that some industries are on the nose with the public, such as the banking sector, but then it also shows that some industries—such as car making, food processing, brewing, and chemical and pharmaceutical manufacturing—have achieved major improvements in public support in recent years.

What then is going on? Well to understand the apparent contradiction one need look no further than the 'Good Reputation Index' recently compiled and published by the two Fairfax broadsheets—*The Sydney Morning Herald* and *The Age*.

The Index correctly identifies that corporations are more sensitive than ever to their public image and reputation. A good public image is a powerful competitive tool in this 'age of emotion' and, conversely, a bad reputation can literally destroy a firm. Accordingly, firms put significant resources into fostering and protecting their public image.



This heightened sensitivity to public opinion and brand preservation also makes corporations sitting ducks for advocates in the 'reputation industry' who ignite and fan flames of concern about a firm's reputation in order to get a piece of the action.

This need not be a bad thing. If the debate about the reputations of firms is open to a broad set of interests, who themselves are open about their allegiances and motives and who put forward views based on reason and fact, then it may improve the performance of the firms and therefore of society as a whole.

As Gary Johns outlines in this issue's feature article, however, the 'Good Reputation Index' allowed a narrow set of groups with an interest in gaining leverage over firms to put forward self-serving opinion as fact and 'settled' public opinion.

In short, it allowed narrow interest to masquerade as the public interest.

The 'Good Reputation Index' also highlights a serious ethical problem in the 'reputation industry' and the media, which is the failure to disclose conflicts of interest. Many of the assembled assessors have on-going commercial or funding relationships with some of the firms included in the Index. Indeed, in some cases, this relationship relates to the very set of issues with which they

participated in the Index. The newspapers in some cases knew of these relationships, but in no case were they adequately disclosed.

This illustrates general problems which undermine, indeed corrupt, the debate about the role of the corporate sector in society.

First, the media, which are appropriately sceptical of conflicts of interest in the business sector, commonly display a blindness to such conflicts in the NGOs, unions, and other advocacy groups, even when these conflicts are of a commercial nature.

Second, the 'reputation' industry is being allowed to apply standards of disclosure and ethical behaviour well below those it advocates for the corporate sector and below the standards suitable for its roles.

The unions are another important institution under pressure. In the case of the unions, however, the pressure comes not from outside interest groups or the media but from their own members.

As outlined by Murray Cranston on page 26, despite relatively favourable economic conditions, numerous recruitment drives and friendly governments for most of the last two decades, union membership is down to 25.7 per cent of the total workforce and the figure is declining.

This should be a cause of concern for us all. First, many workers need a strong, focused agent to assist them when dealing with their employers—arguably more than ever. Second, the union movement still has a huge influence within the Labor Party, which forms the government in a majority of States and is likely to do so again at the Federal level in the not-too-distant future. It is simply not good for our democracy to have a party of government dominated by a narrow interest group—which is what the unions are rapidly becoming.

IPA

REVIEW

Corporate Reputations: Whose Measure?

GARY JOHNS

THE debate about the role of corporations in society has descended into farce. It is fashionable in some quarters to suggest that interest groups should decide these matters. Corporations will be good if they do what interest groups think is good. They will be bad if they do what interest groups think is bad. Is this a sensible way to proceed? Hardly, but it seems to be the view of some media and sundry interest and advocacy groups—NGOs—who have taken it upon themselves to be judge, jury and executioner of the reputation of Australia's corporations.

Corporations are commercially responsible and liable for the goods and services they produce for their customers. They are industrially responsible for and contractually obligated to their employees. They are financially responsible for and legally obligated to their shareholders. There are performance measures that could be applied to these issues. Unfortunately, the sort of measures applied by interest groups to corporations may well undermine the accountability to the people that count the most: shareholders, employees, customers and the community through the law. Measures that give standing to those groups who have none, but who seek to capture the corporation for their own purpose should be recognized for what they are: political tools.

A prime example of an attempt to hijack corporate reputations by assigning measures of reputation was *The Sydney Morning Herald* and *The Age* newspapers which recently published a list of Australia's 'best' 100 corporations. Each was rated on a number of

factors, which were combined to form the 'Good Reputation Index'. The Index purported to measure corporate performance on employee management, environmental performance, social impact, ethics, financial performance and market position. The judging was undertaken by 18 'influential' organizations, such as the Ethnic Communities Council, Greenpeace, Amnesty International, the St James Ethics Centre, the Institute of Chartered Accountants and the Public Relations Institute of Australia.

The organizations approached the task in different ways. Some faxed surveys to each corporation, some made direct contact to interview key managers, and others used corporate publications and Websites. Many groups surveyed the opinions of their own members and decided not to contact public relations staff directly. The whole exercise was an attempt to impose a world-view on corporations. The view that 'good' people must be satisfied with their performance, no matter what their legal, financial and fiduciary obligations, no matter what their role as wealth creators. The Index lacked objectivity, discipline, comparability and, in the end, credibility. It was a triumph of belief over reason, gut feel over analysis. Who won and who lost, and why?

To focus the mind, concentrate on the winner, Leighton Holdings, and the corporation that was ranked 70, the Commonwealth Bank. The Commonwealth Bank is a perfect starting point because its financial performance, as rated by the Institute of Chartered Accountants, was number one on return on shareholders' equity, and

price/earnings ratio. Why did it slide 69 positions on the Good Reputation Index?

On the section of the Index on the Management of Employees, the Australian Human Resources Institute and the Employers' Federation of NSW ranked nearly all corporations about the same. This meant that the other two judges of this section really determined the rankings. The ACTU ranked Leightons highly and the Commonwealth Bank lowly on the recognition of unions and paying fair and reasonable wages. Lend Lease and Transfield were given high marks by the ACTU on the same criteria. The ANZ, Westpac and AMP were rated lowly. In other words, the rating depended on the industry, not the corporation. In addition, the ACTU has been in dispute with the Commonwealth Bank—a fact that should have been disclosed. On equity and non-discriminatory employment practices, the Ethnic Communities Council scored the Commonwealth Bank, and a handful of other corporations, at zero, the lowest rating. A very large number did not respond to the survey, but were given a rating of 4.5! All others scored a top rating of seven. As the Commonwealth Bank has only recently been privatized, it is likely to have a very solid record on equity matters. The suspicion is that the Commonwealth Bank copped a payback because it no longer plays the game in the manner it had to when it was owned by the Commonwealth Government.

On the Environment Performance section of the Index, Leightons, which may actually make a bit of mess building things, is rated more highly than

the Commonwealth Bank, which does little of environmental consequence. Why was the bank marked down? Because Greenpeace, the Australian Conservation Foundation and The Wilderness Society could barely distinguish the performance of Leightons and the Commonwealth Bank. However, the Victorian EPA scored a zero for the bank on its 'effective communication with the public on its environmental performance'. What would the bank have to communicate about? Leightons won because it *has* to communicate on this criterion, the bank loses because it does not!

Further, on the Environmental section, Greenpeace, the Australian Conservation Foundation and The Wilderness Society ranked Visy Industries number one, most probably because it is a recycler. They ranked IBM Australia number two, probably because it produces (non-polluting) computers. They ranked Queensland Rail three, because it is a public transport company. Companies such as Wesfarmers, BHP and North, that actually made things, including the hardware that Visy, IBM and QR use, were marked down. The clear inference is that producers are bad and consumers are good. More fundamentally disconcerting, the Australian Conservation Foundation rated Southcorp well, but did not disclose the fact that it has a commercial relationship with Southcorp.

On the Social Impact section of the Index, Amnesty International rated all corporations—except Rio Tinto, Comalco, Western Mining and Shell—at zero, because they did not have a publicly stated commitment to the Universal Declaration of Human Rights. The named corporations work in regions where indigenous issues, in Australia and abroad, have some impact on their operations. The rarefied instrument of the Declaration may have some marginal relevance to their work. Where does that leave the other 96 corporations? In terms of the Index, badly off because they do not promulgate an instrument that is irrelevant to their operations. Both Leightons and the Commonwealth Bank are

damned because they have not publicly stated their commitment to the Universal Declaration of Human Rights!

The inability to distinguish the vast bulk of corporations using the human rights criterion leaves this section, by default, to other judges and other criteria. For example, Leightons slips behind the Commonwealth Bank because the Australian Business Arts Foundation says that Leightons does not 'recognise Australian society and culture as important' whereas the bank does. However, on the Foundation's remaining criterion—company performance in actually putting its hand in its pocket to help the arts—they both score well. Stranger still, Leightons

The Index ... simply gathered the opinions of those who have an interest in gaining some leverage over activities of corporations

scores five to the Commonwealth Bank's four on the National Farmers' Federation criterion, 'demonstrated continuous supply of goods and services to regional Australia'. The Commonwealth scored the same as Westpac, NAB and ANZ. This minor variation in ranking was sufficient to place Leightons ahead in this section overall. Clearly, the banks were on a hiding to nothing on the issue of the withdrawal of their services to the bush, but the rankings do not indicate such disparity in the scores.

The Ethical performance section of the Index is the really decisive factor. Leightons gets a perfect score from the

St James Ethics Centre. Why was Leightons assessed number one on ethics? Perhaps, because St James has advised Leightons, and 38 other companies in the survey, on ethics? St James simply cannot credibly judge the companies for whom it has worked. It is not ethical! The St James Ethics Centre should have disclosed its relationship with the firms in the survey, or disqualified itself from acting as a judge. On another tack, CSR has an ethics committee, but does not score on the other three criteria that St James specifies. The Commonwealth Bank did not respond to the survey and yet outscores CSR on the ethical performance section of the survey!

On the Market Position section, the Australian Marketing Institute rates Leightons higher than the Commonwealth Bank, because the bank's 'organisational structure does not sufficiently reflect a commitment to marketing' nor are its 'plans and strategies driven by the marketing model'. This is self-professing nonsense. Surely, the measure of a company's devotion to marketing is a reflection of its own assessment of its need for marketing. Further, Leightons beats the Commonwealth Bank on the Consumers' Federation of Australia criterion, because Leightons has a charter that recognizes the rights of consumers and the bank does not. However, the bank has 'an effective complaints resolution service', but Leightons did not answer this question. Its score for a non-answer was mid-range, which placed it not far behind the Commonwealth Bank.

More generally, corporations that produce or sell consumer goods and services are rated on the same scale as those that do not. The likes of Ansett, Ford, Nestlé and Telstra are highly rated on marketing. They also deal directly with consumers who are private citizens, so they have to market themselves. The likes of Rio Tinto, Smorgon Steel, Wesfarmers and Brambles deal with corporations. No wonder they were rated lowly. This result is contrary to the Leightons and Commonwealth comparison, but the section nevertheless suffers from the problem of com-

paring unlike industries and using completely self-serving criteria.

One of the claims of the Index is that reputation is 'much more difficult to achieve than it was 20 years ago because it is a product of so many conflicting agendas.' The Index did not 'find' this at all. It simply gathered the opinions of those who have an interest in gaining some leverage over activities of corporations, but who have no direct interest in their operations. The Good Reputation Index has proved to be opinion dressed up as fact. It has more to do with setting up advocacy groups as opinion-makers than with a desire to evaluate the performance of corporations. It has precious little to do with actual performance of tasks that corporations need to undertake in order to fulfil their obligations to their customers, shareholders and workforce and to society through their legal obligations.

An alternative ethical audit would ask, does the corporation comply with the law? Does it fulfil product claims? How does a corporation handle the bad times, like customer complaints, product recall, employee compensation, product liability and so on? Is there sufficient information available about its operations to make informed consumption and investment decisions? Good information is the lifeblood of the marketplace—so why constrain that information by some predetermined, 'tick the box' audit of someone's imposed values? There is a place for an objective set of measures of the performance of companies. It seems that the art of establishing a public reputation has more to do with some people's view of the corporate world than any relevant assessment of corporate performance. Perhaps there should be a Reputation Index for NGOs and interest groups. How would they rate?

The Hon. Gary Johns is a Senior Fellow at the IPA and Head of its NGO Project.

IPA

How to Build Your Own White Elephant

JIM HOGGETT

THOUGH widely and enthusiastically reported in the South Australian and Northern Territory media, the national media gave little prominence to the announcement of the go ahead for Australia's favourite development proposal—the Darwin to Alice Springs railway.

This is strange given the massive financial commitment it involves.

The north-south link was mentioned in the Governor-General's speech to the first Federal Parliament in 1901. Now, a century and two World Wars later, the time is apparently ripe to complete the link.

The construction cost will be \$1.23 billion:

- \$480 million of government grants—\$165 million each from the Federal and Northern Territory governments and \$150 million from South Australia.
- \$750 million yet to be raised privately.

On top of the \$1.23 billion there will be:

- Commonwealth handover, at no cost, of the existing Tarcoola to Alice line which links with the trans-Australia line from Perth to Adelaide.
- An unspecified amount (but probably tens of millions of dollars) to provide rolling stock.

Aside from the issue of whether the construction will come in on budget, which is on the far side of improbability, the governments in-

volved have abandoned any serious attempt to justify the project on economic grounds. The Prime Minister has rejected the 'nostrums' of 'pure economic rationalism' in assessing the project and has defended it on the grounds of nation-building.

This is politically expedient because no respectable cost-benefit appraisal has ever been able to justify the project on public interest grounds. It also explains the large government grant element which is designed to make it commercially attractive to a private consortium.

No economic justification for the project is possible because there is simply no prospect that there will ever be sufficient demand for rail services along the route.

We are not talking here about a railway between great cities across fertile prairies such as from Quebec City to Vancouver or New York to San Francisco. We are talking about a line of 3,000 kilometres, mainly across desert, that goes from a slow-growing, moderate-sized city (Adelaide) through one static, small town (Alice) and a few other very small towns to a slow-growing, large town (Darwin). To give an indication of the existing potential of the link, the total population on the line between Adelaide and Darwin is smaller than that of the ACT. The most recent ABS population figures show that even this small population is declining in most of the areas between Adelaide and Darwin. ▶

That leaves only the nation-building rationale. This would imply that we needed the rail for a strategic purpose or that it would generate new development along its length.

The strategic argument is non-existent. If we had to rely on rail transport in a national emergency, such as a military threat or a natural disaster, we might as well not bother. Road, air and cross-country transport are faster and infinitely more flexible.

Nor will the line create flourishing new development. There are no branches from the southern part of the line into the Simpson Desert and there will be none in the north into the Central Desert. Local transport uses road and the potential for new, large-scale development is nullified by the environment.

There are few bulk shipments of goods directly between Adelaide and Darwin, and these would probably go more cheaply by ship.

Rail construction had its heyday when the alternatives were either slow, often impassable roads or even slower, relatively low-capacity ships. That era has passed. New railways now are limited to links between dense areas of population (such as the high-speed trains) or dedicated high-capacity mine-to-port lines (such as the coal and iron ore lines).

The era of the nation-building railway was already gone when the Governor-General made his speech in 1901.

The Adelaide to Darwin railway is likely to end up carrying a small tonnage of pastoral, mining and business freight and a small number

of tourists, many of them at concessional fares.

Only those who think that the government grants are free money could support this project. But that \$480 million in grants will come out of the pocket of every Australian taxpayer. It is part of our very limited domestic savings. There is no possibility that we will see a return on our investment or that it will generate the export revenue to pay for the imported equipment required

to run it. It will simply subsidize the private consortium partner in the project.

This project is the modern equivalent of the stupendously wasteful Ord River irrigation scheme. It will be neither use nor ornament.

If we wanted to spend more on rail, which is hard to justify in any case, why not boost the upgrading of our existing

rail system, which only gets \$62 million a year from the Commonwealth? Or, better still, spend more on the road system which everyone actually uses, or even better, on the telecommunications system, which will be a real economic driver in the twenty-first century.

It is worth noting that a 'nos-trum' is defined as a 'pet scheme'. This 'pet' would be a white elephant at birth. Every Federal government in the last hundred years eventually realized this and refused to commit money to it.

It's time to put aside nostalgia, accept that the railway age is over and abandon this project.

*Jim Hoggett is Director, Economic Policy,
Institute of Public Affairs.*

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REVIEW

The New World and 'Another World'

JEREMY RABKIN

Reflecting on his recent Australian visit, Cornell's Professor of Government notes some striking differences in political attitudes

EVEN in the summer of 1940, when the fate of free nations seemed to hang in the balance, Britain and France could not see things the same way. When Charles de Gaulle met with Winston Churchill, they differed on many issues of wartime strategy. The two leaders only 'modestly agreed', as de Gaulle later recalled: 'that when all is said and done, Great Britain is an island; France, the cape of a continent; America, another world'.

This summary still seems to capture the shape of disputes over the future of Europe. Britain remains 'an island' of resistance to the construction of a federal super-state, headquartered in Brussels. France, as the 'cape of a continent,' continues to pull other states in the direction of tighter 'integration'. And across the Atlantic, Americans look at the whole process with bafflement, as if they lived in 'another world'.

On my visit to Australia in August and September of this year, I had the distinct sense that Australians live in yet another world. You certainly don't share French enthusiasm or complacency about yielding up national sovereignty to supranational institutions. But you're not an island of resistance, either. You may be in 'another world'—but it's not the New World that Americans inhabit.

The IPA arranged for me to deliver a series of lectures in different Australian cities and by sheer good luck, my topic—the debate about

sovereignty and global governance—proved highly topical. I delivered the Harold Clough Lecture in Perth in late August and just as I arrived in Melbourne the Howard Government had announced that it would no longer co-operate with UN investigations of Australia's human rights record. There were already rumblings, too, about the planned protest against the World Economic Forum in Melbourne, later in the month. By the time I got to Canberra my topic was a central issue for the Australian media. My final talk, to a business group in Brisbane, also provoked more interest than I could normally have expected. Good scheduling work, IPA!

Quite a few things struck me as curious in Australia's reactions. First, you folks are paying much more attention to these issues than we are in America. I noticed, for example, a surprising amount of hand-wringing in the Australian press about the meaning of the planned S11 protest—weeks before it occurred. In the United States, our media briefly looked up and took notice of the broken glass in Seattle, after the anti-WTO protests there in December 1999. By the time of the next street protest, during a Washington conference in May 2000, our media shrugged off the whole thing as noisy nonsense.

It's not that there is such a firm consensus for free trade in the United States. But a series of agreements for reciprocal lowering of tariffs and trade barriers are one thing. Hardly

any prominent figures in America give serious attention to calls for a global regulatory authority to complement the WTO. That dream of the anti-WTO protesters just seems too fantastical for mainstream politicians here. So it is not an 'issue' we pay much attention to.

But Australians seem to think they must listen to anti-trade protesters because they may speak for important forces in the wider world—and the wider world must be heeded. So, there was an amazing amount of hand-wringing in the Australian media about how the world would respond to the Howard Government's rebuff to UN human rights monitors in Geneva. In America, this dispute got almost no media coverage at all. But then, the American media pay no attention even when the UN finds human rights violations in the United States, itself. It is not newsworthy because nothing can follow from such criticism.

Similarly, businessmen in Brisbane asked anxiously whether Australia would not get itself in trouble if it refused to ratify the Kyoto Protocol on Global Warming. In the US it is generally agreed that the treaty has no chance whatever of being ratified in the Senate. We have just gone through a presidential campaign in which Al Gore, a principal architect of the Kyoto Protocol, scarcely mentioned this treaty at all in months of campaigning.

International authority has an aura of solid reality to many people in Australia, which it just does not

have in America. When I spoke somewhat mockingly about human rights conventions in Canberra, parliamentarians in my audience seemed grateful to hear such public acknowledgement of the emperor's nakedness. If you go to Capitol Hill in Washington and say that human rights conventions are mostly hot air, you will be criticized for taking a cheap shot—because the point is already so widely acknowledged.

The difference was really brought home to me when I participated in an ABC radio call-in show with an Australian human rights advocate. One of the callers remarked that Australia must show respect for UN human rights monitoring, because 'if we were ever conquered and occupied by a foreign power, we would want to be able to appeal to the UN to safeguard our human rights under the new government.' Neither the host nor the other guest laughed at this. Not even the kooky left in America would talk this way. The idea that if the Pentagon failed us, we could turn at last to the UN to protect our rights—it is just too preposterous to say out loud.

Of course, our geopolitical situations are rather different. Your nearest neighbour, Indonesia, is ten times your size and teetering between a new military takeover and a descent into total chaos. Beyond, there is a newly assertive China, with some 60 times the population of Australia. If Haiti were a hundred times larger than the US, we might worry much more about global trends. As it is, our strongest neighbour is Canada—one-tenth our size and one of the most orderly and civil countries in the world. Besides, the US is a military superpower. Australia is not even a predominant power in its region.

But I am also struck at how much the differences in international outlook mirror the differences in domestic political patterns. Most Americans are somewhat distrustful of what we call 'big government,' so they are naturally distrustful of the super-big

government represented by international institutions. Most Americans assume that government programs will be dominated by self-interested constituencies and distrust them, accordingly. Americans take it for granted that most constituencies, most of the time, will be highly self-interested, because that's human nature. So they assume that when you

The idea that if the Pentagon failed us, we could turn at last to the UN to protect our rights—it is just too preposterous to say out loud

get a lot of countries together in an international venture, most of them will probably be acting in their self-interest and this will mean that they are trying to take advantage of the United States.

A lot of Australians seems to think people can be nicer than that, so countries can be nicer, so the world at large can be pretty nice. It all sounds quite nice and perhaps your fellow citizens are nice enough to make the domestic version of collectivism seem plausible. But I can't imagine which countries in your neighbourhood have given you the idea that the world at large is so nice.

Perhaps there is a still deeper root to the difference, though. Americans have a very deep and instinctive regard for their national sovereignty. We fought a revolution to secure our independence. We wouldn't for a moment think of submitting ourselves to the dictates of some other country or some gathering of other countries in some international body.

There's a long list of international treaties and conventions that have never been brought to a vote in the US Senate because they would never be ratified. Quite a lot of them never get signed in the first place.

Europeans, by contrast, are usually the principal promoters of these ventures—from the International Criminal Court to the Kyoto Protocol to plans for a Global Environment Organization or proposals to somehow merge conventions of the International Labour Organization with the trade rules of the WTO. I understand why the EU, now the world's largest trading state, thinks it can dominate international institutions. I understand why Europeans, having already delegated so much authority to Brussels, find it easy to delegate other powers from Brussels to Geneva or Kyoto or some other centre of global governance.

In the end, I still find it hard to understand Australian leanings. You cannot be a dominant power in world councils but you are justly proud of your own constitutional traditions. Why are you so ready to cede authority to international brokers with no constitutional restraints? Your elites are so jealous of a British ceremonial presence that they want to make Australia a republic. Yet they are keen to treat international bodies as some kindly protector from on high.

Whatever the reasons, Australia really is in another world from the United States—though you will never be part of the EU. Australia is a beautiful and charming country with quite a lot to admire. But viewed from the rest of the world, it does seem a bit upside down.

If you permit a foreign friend to offer one word of advice, I would say this: You should learn to stand up for yourselves in this world. No-one else will.

Jeremy Rabkin is Professor of Government at Cornell University. He recently gave a series of lectures in Australia as a guest of the IPA.

IPA

REVIEW

Commercializing Highways

ROBERT W. POOLE, JR

MOST people consider the modern highway system a great success. Automobiles provide 95 per cent of all individual surface trips, and trucks transport an ever-larger majority of all freight. Moreover, the highway systems in Australia and North America are more than self-supporting via user-taxes. Yet I'd like to suggest that our highway systems are in trouble.

The systems are increasingly congested with, for example, \$72 billion in fuel and time being wasted each year in the 68 largest US metropolitan areas due to traffic congestion.

Investment is failing to maintain the existing system, let alone meet the growth in demand. And a large coalition of environmental, urban planning and transit organizations opposes highway expansion and advocates shifting highway funds to transit, bikeways, etc. Their mantra is: 'We can't build our way out of congestion'.

Thus, the highway system is failing to satisfy its customers. And its ability to do so is more constrained with each passing year. My conclusion is that we need a new highway paradigm for the twenty-first century.

Transport economist Gabriel Roth calls the twentieth-century highway paradigm 'Soviet-style'. By that he means a system:

- that is centrally planned, in a top-down fashion;
- whose resources are allocated by political rather than economic criteria; and
- which almost completely avoids the use of pricing.

Roth contrasts the highway system and the telecommunications system. Both are network utilities, in which users traverse interconnected

networks developed and operated by various providers. But there the similarity ends. Today's telecom system is market-driven: owned by profit-making firms, using market prices to equate supply and demand, and directing investment to where it is most needed to satisfy customer demand. A number of other transport experts have reached similar conclusions.

The idea of highways evolving into road utilities has entered serious discussion in several countries. Large-scale national studies have explored this approach in New Zealand, the Netherlands and the United Kingdom. In New Zealand, the previous government's transport ministry did a large planning study on how to divest all highways to a small set of government-owned but commercially run highway corporations.

Several dozen countries have adopted the build-operate-transfer (BOT) model of competitively awarding long-term concessions to private consortia to finance, design, build and operate major new highways (as toll roads) over the past decade. The pioneers were the toll-road systems of France and Italy, developed using this model in the 1960s and 1970s. But during the 1990s, BOT highways spread to other countries in Europe, to Israel and South Africa, to most of Latin America, to much of Asia, and of course to Australia and in a limited way in the USA.

Last year, several countries (Canada, Italy and Portugal) went even further, actually selling off existing state toll-road owner-operators. In each case, what they sold was the physical facilities plus a long-term franchise to operate them

(ranging from 33 to 99 years). And in each case, other operators are also allowed in the toll-road business.

These modest beginnings already show how the new commercial paradigm can address the highway problems I set forth at the outset. Traffic congestion can be tamed by variable pricing. Several French toll roads now charge higher prices during weekend hours when Parisians are returning to the city—and those congested peaks have been flattened and decongested. On two busy commuter freeways in Southern California, tolled express lanes vary their prices by hour of the day and day of the week, ensuring free-flowing traffic right next to stop-and-go traffic in the regular lanes. Studies show that the actual throughput is as high on the 'managed' lanes as on the congested lanes. Variable pricing is also being used on Toronto's all-electronic Highway 407.

Private developers are also addressing the difficult issue of adding capacity in urban areas. In Toronto, there was no room for toll plazas on an urban toll-road with dozens of on-ramps and off-ramps. So a private-sector team developed the world's first fully automated toll-road, using both electronic toll tags and video licence-plate imaging. As on the Melbourne CityLink, there are no toll booths at all. In the suburbs of Paris, a private firm came up with the breakthrough solution for the missing link in the A-86 ring road. Instead of bulldozing through historic Versailles, the firm is tunnelling deep beneath it. Los Angeles planners are considering double-decking portions of several freeways, to add truck-only toll lanes without having to condemn expensive land to widen the existing right-of-way. ▶

These kinds of capacity additions are more costly than traditional free-ways. But that's where the new paradigm comes in. That \$72 billion annual US congestion cost is one measure of what customers might pay for relief—if offered the chance. Large sums of capital are available in the global markets for highway projects that meet real needs—'large' as in \$1.8 billion for the Paris A-86 tunnels, \$1.3 billion for the Melbourne CityLink, and \$1.2 billion for the Cross-Israel Highway. The new paradigm taps into pools of capital—revenue bonds and shareholder equity—that have been little used for highways. But the requirement that each project pass muster with investors serves to weed out highways built for political rather than economic reasons.

There are several political obstacles to phasing in the commercial paradigm. One is dislike of paying tolls. In part, this stems from unhappiness with toll booths—congestion, coins, rear-end collisions, etc. As new technology makes toll booths obsolete, this problem should fade away. Another problem is opposition to 'double taxation.' Since most fuel taxes have historically been introduced as highway user-fees, trucking and automobile organizations oppose paying both fuel-taxes and tolls for the same roadway. Rebates of fuel-taxes for miles driven on toll-roads would address this problem.

A popular misconception is that tolls should pay for the large up-front cost of building a road but should be removed once the initial investment is recovered. This view ignores the substantial costs of properly maintaining and rebuilding the highway. Tolls can and should be a permanent, ongoing funding source—just like electric utility and telecom bills. A shift to investor-owned road utilities, using generally accepted accounting principles, will help educate highway users about highway economics.

Another concern is that tolls are unfair to low-income people—tolls are described as 'regressive'. While

the data are far from clear, the evidence indicates that the amount of driving increases greatly with level of income. In addition, the principal funding sources for highways—fuel taxes—are themselves 'regressive'. Here again, changing to the road-utility paradigm should help. Few people object to direct pricing in air and rail travel, electricity and telecoms service, and letter and parcel service. Once roads are understood as network utilities, pricing will come to be seen as the normal way of doing business.

One other concern is the emerging opposition between highways and transit. Today's anti-highway coalition seldom distinguishes between free roads and toll roads. If it facilitates auto travel, they're against it.

Once roads are understood as network utilities, pricing will come to be seen as the normal way of doing business

Proponents of commercialized highways should defend auto-mobility as an inherently good thing. To be sure, when roads are seen as 'free', people may use them more than if they were directly priced. But we should defend the expansion of *priced*, not free, road capacity. Enhanced mobility is a good thing, and people do appear willing to pay billions of dollars to obtain it. As long as they are paying their way, most people would agree that they should have it.

But at another level, pricing and commercialization will create a far more level playing field between transit and highways. A market-driven system, where users cover all

the costs, will lead to a new allocation between auto use and transit, tailored to the specifics of each metropolitan area. Moreover, the congestion reduction brought about by pricing urban expressways will make long-distance express bus transit a far more attractive option. In this regard, it is interesting to note that several US environmental groups have become advocates of pricing and even of road utilities.

The results of a paradigm shift don't appear overnight. Countries such as Australia and the United States need to create a suitable legal and tax-code framework for the emergence of road utilities—and Australia seems to be further along than the United States. In both countries, we will see the continued gradual expansion of privately concessioned new toll projects, rather than a sweeping shift of existing highways to private-sector ownership. Such projects include adding express toll lanes to congested freeways, adding truck toll lanes to highly commercial highways, and adding costly missing links to urban expressway systems.

Once state agencies become more comfortable dealing with highway concession companies on a large scale, and the capital markets have more experience financing a variety of tolled projects, the next stage will be turning over existing highways for rebuilding and modernization as toll roads, with value-added electronic services. By that point, the entire 'higher-level' limited-access road system will have become the responsibility of the emerging road utility industry. Road user-taxes, if any, can then be limited to paying for local streets and roads, since the higher levels of the roadway system will have become self-supporting businesses. And the new commercial highway paradigm will have arrived.

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I P A

REVIEW

The Topsy-Turvy World of Higher Education Politics

ANDREW NORTON

IN politics it is normally easy to guess what a group might think. Just look at their interests, add a bit of public interest gloss, and you have their policies.

There is one area in which this formula won't work. In higher education we have the highly unusual situation of all the major interest groups, apart from the newly-formed Group of Eight, regularly opposing policies that would advance their members' interests.

Take, for example, the Australian Vice-Chancellors' Committee, which represents all but one of Australia's Vice-Chancellors.

The AVCC complains continually that the universities are short of money. Their 'Ten Point Plan for Australian Universities', issued during the 1998 election campaign, was really a one-point plan with ten variations. The one point was, of course, that they needed more money.

Fast forward to October 1999 and the leak of Federal Education Minister Dr David Kemp's reform plan for Australian higher education, a plan that could have ended the financial problems of Australian universities.

For the AVCC's members, Dr Kemp's proposal promised full subsidies for the partly subsidized students they have now, and the lifting of government-imposed limits on subsidized student numbers. All Australian fee-paying students, and not just those occupying subsidized places, would have been entitled to pay for their education with an income-contingent loan, opening up a new market of students prepared to pay

full-fees, but unable to provide the money up-front.

On top of this, all universities would have been able to charge fees for their undergraduate courses, again with income-contingent loans available to students. Even if they had charged their full-time undergraduate students a modest \$1,000 extra each per year, this would have amounted to around \$400 million, an increase of 8 per cent on what the Government pays universities now.

You might think that the AVCC would respond enthusiastically to a proposal which would alleviate their members' financial problems, but that would be to apply the normal logic of interest groups.

What did the AVCC do? Its press release welcomed the proposal's acknowledgment of the scale of the sector's problems. It said that there were a number of things worthy of further consideration, though did not specify any. And it devoted the vast bulk of its public comment to attacking the one part of the proposal that was probably a bad idea, the charging of variable commercial rates of interest on student loans.

Any sensible interest group would have concentrated on supporting the things that were good for them, rather than almost ignoring them as being just 'worthy of further consideration'.

This was not just an aberration by a misguided AVCC Secretariat. Of the 32 Vice-Chancellors or their representatives that *The Australian* newspaper contacted after the leak, 15 said that they were against deregulating fees, and only seven were in favour, the rest giving a qualified response.

The principal union in higher education, the National Tertiary Education Union, did not bother with the AVCC's caution. It unequivocally condemned the reform proposals.

Yet again, we have an organization at odds with the financial interests of its members. The NTEU believes that university staff are underpaid, and indeed local academic salaries are falling behind those of their counterparts overseas and other Australian professionals.

The NTEU's solution is for the taxpayer to fund academic salary increases. This is a doomed strategy. Per student funding has declined in all but three years since 1983. With both major political parties committed to fiscal responsibility, there is no chance of funding commensurate with pay demands. Only students have a direct interest in financing education, and deregulation is the only way to achieve large-scale student investment. Yet the NTEU remains implacably opposed to the policies that could improve the lot of its members.

The peak body representing Australia's postgraduate students, the Council of Australian Postgraduate Associations, similarly acts to undermine its members' interests. During 1999, Dr Kemp released a green paper on research policy reform. A key green paper proposal was to make the scholarships given to postgraduate research students portable, so that if a student wanted to leave his or her university to go to another, they could take their funding with them.

This was a policy with few, if any, downsides for research students. It would empower those who did want

to switch universities, and encourage all universities to improve their performance so as to avoid departures to rival institutions.

Given the pattern of behaviour among higher education interest groups, it will come as no surprise that CAPA opposed this policy. Puzzled by this, I asked the President of one of its constituent groups for an explanation. He thought portable scholarships were the thin end of the wedge for fees, though how scholarships which exempt the student *from* fees could be the thin end of the wedge *for* fees is, to say the least, not self-evident.

The logic, if it can be called that, seems to be that most reformers support both funding following the student and letting universities set fees, so conceding the first point gives reformers a victory that could lead to the second. Never mind that there is no intrinsic link between the two, or that the introduction of charges in the late 1980s was not the thin end of the wedge for portability, casting doubt on whether there is in fact a political link between the two.

The National Union of Students, the self-proclaimed representative of undergraduate students, is also opposed to fees. This is at least comprehensible within normal theories of interest groups. Its members would, after all, be paying the higher charges.

But on closer examination even this does not stand up to scrutiny. The NUS position prevents students from doing something that is very much in their interests, which is investing more in their education. They cannot pay more to get student-staff ratios down from 19-1, or to have better lecturers, or to improve the library, or any of the other things that would make universities better places in which to learn and think. Undergraduates are perversely prevented from investing in what for most of them is their major asset, their own human capital.

The major reason these organizations are prepared to sacrifice the interests of their members is the belief

that fees deter the poor from attending university.

In principle, there is no reason why fees should deter, at least for vocationally-oriented courses which provide good insurance against unemployment and low-income work. So long as there are income-contingent loans, what matters is a student's future income, not their past or present earnings.

Consistent with this, the evidence of the last 20 years is that there has been a strong increase in the proportions of low-income students attend-

Higher education is a case in which the world would be a better place if everyone did selfishly pursue their own interests by calling for deregulation

ing university, despite the introduction of HECS in 1989. They are responding to good prospects for those with degrees and diminishing prospects for those without qualifications.

Even if potential students from poor groups are more worried by fees than people from well-off families, the solution is not to preserve a system that causes chronic underinvestment in higher education, but effective campaigns which show that higher education does pay off.

In universities today, arguments like these are heresies. Despite their self-image of being self-critical institutions, universities are very prone to groupthink, and outside of economics faculties this groupthink enforces a widespread hostility to market ideas.

If we look at the structure of universities, this should not be entirely surprising. Partly due to periods of rapid expansion in the 1960s and 1970s, and relatively low staff turnover, universities have ageing workforces. As of the mid-1990s, less than 30 per cent of teaching staff were aged under 40, and about 40 per cent were in their forties. The process of peer review of work proposed for publication and appointment by committee creates strong incentives to maintain the intellectual and ideological status quo, which is generally that of a generation rarely exposed to market views in their intellectually formative years.

How can they be persuaded to reconsider their views? Possibly the trigger for change is in the decline they witness all around them. I am reminded of Albert Hirschman's arguments about the rise of the idea of self-interest in the eighteenth century. While the contrast with self-interest drawn today is with altruism, in the 1700s, in the writings of people like David Hume and Adam Smith, it was with a range of less desirable attributes such as irrational avarice, a desire for revenge, sheer habit and eagerness to conform. Compared with these, a little bit of rational self-interest was a distinct improvement.

In the twenty-first century, it would be good to see some of this eighteenth-century wisdom revived. The higher education interest groups have bad cases of sheer habit and eagerness to conform dressed up as concern for the disadvantaged. It is not often that we should wish that an interest group would forsake 'principle' and join in the dash for cash of all the other lobbies. But higher education is a case in which the world would be a better place if everyone did selfishly pursue their own interests by calling for deregulation.

Andrew Norton is a Research Fellow with The Centre for Independent Studies and was a former adviser to the Federal Education Minister Dr David Kemp.

I P A

REVIEW

Cultural Wars

RON BRUNTON

Turning Tables on Monster Makers

You have to hand it to the greens. They really know how to push the buttons that generate unnecessary public alarm. Their latest triumph of misinformation has been with genetically modified crops, or 'Frankenfoods' as they cunningly call them.

In July, an ACNielsen poll revealed that two-thirds of Australians would not buy genetically modified food, and the Tasmanian Government declared genetically modified organisms 'forbidden pests', preventing field trials of GM crops for twelve months.

And, Australian and New Zealand health ministers have decided to introduce what is said to be the world's strictest labelling laws for GM foods. While consumers have every right to make an educated choice about their purchases, the push for labelling by environment groups has been driven far more by the desire to demonize GM foods than the urge to provide the public with accurate information.

But what is good for the goose should be good for the gander. If it is okay for greens to exaggerate the dangers and ignore the potential benefits of things they dislike, it should be just as legitimate for their opponents to take an unkind look at things that environmentalists cherish. So in the interests of creating a level playing field, let us consider organically grown foods.

For starters, given the power of language in influencing public perceptions, perhaps we should introduce a new name, one that could do as much to discredit organic produce as 'Frankenfoods' has done to genetically modified foods. In recognition

of the major role of animal excrement as a fertilizer for organically grown crops, 'poo-foods' seems a good choice. People with more profane inclinations might prefer a stronger term.

The term 'poo-foods' will also help to draw attention to one of the health risks associated with organic crops, the danger that vegetables grown using animal wastes will be contaminated with deadly *E. coli* O157 bacteria.

While 'poo-food' advocates will probably counter that their industry standards require excrement to be composted before being applied to crops, they can give no firm guaran-

In both America and Europe, serious outbreaks of *E. coli* infection have been traced to organic produce

tees that the composting process kills all the dangerous micro-organisms, nor that all growers scrupulously follow the standards.

No doubt most 'poo-food' farmers are responsible people, but they are not running charitable enterprises. In their desire to make a quick profit, it is a fair bet that some are cutting corners and putting public health at risk. After all, greens always claim that this is what large corporations are doing.

Certainly, in both America and Europe, serious outbreaks of *E. coli* infection have been traced to organic produce. And American data analysed by the agricultural scientist Dennis Avery showed that consumers of 'poo-foods' were eight times more likely to be attacked by the most virulent form of *E. coli* than people who only consumed mainstream food.

But a heightened risk of bacterial attack is not the only potential health hazard posed by organically grown crops. Although the word 'goodness' almost inevitably follows the word 'natural' in marketing campaigns, real nature—as opposed to the Disneyfied versions favoured by advertising agencies and greens—is far from benign.

Most edible plants contain natural substances which have been shown to be carcinogenic or otherwise dangerous in sufficiently large doses. These toxic substances help to protect the plants against attacks from insects and other pests.

Indeed, biochemist Professor Bruce Ames—who became an environmentalists' hero when he developed the 'Ames test' for identifying carcinogens—has pointed out that the levels of natural pesticides in typical Western diets are about 10,000 times higher than the levels of 'man-made' pesticide residues. (Greens did not thank him for this observation, and he is now one of their hate objects.)

Organic farmers tend to favour varieties which contain high concentrations of these natural pesticides. In one unfortunate instance, a new insect-resistant strain of celery, bred with the organic market in mind, caused people who handled it to develop skin rashes. This variety turned out to contain nearly eight times the

amount of the skin cancer-causing substance psoralen than is found in ordinary celery.

That is not all. Refusing to use synthetic chemicals to fight pests, organic farmers usually tolerate a greater degree of damage to their crops from insects and animals, which also makes them more vulnerable to fungal attack. And of course, they can't use chemical fungicides either. Not surprisingly, many organic crops have higher rates of infestation by moulds which produce aflatoxin, which is one of the most potent carcinogens known.

But if they don't do much for humans, surely organic crops are better for the environment, preventing the misuse and accumulation of various chemicals that pollute our lands and waters and threaten biodiversity? Yet even here, the scorecard is mixed.

The yields from organic agriculture are substantially lower than those obtainable from conventional methods—let alone the yields that may eventually result from genetically modified crops. A really significant shift towards organic farming would mean the clearing of considerable amounts of extra land, which could otherwise be preserved for wildlife.

Please don't misunderstand me. If people are willing to pay higher prices for organic produce because they believe it is good for them, that is fine. I think they are wrong, but it is their money. And if our struggling farmers can make greater profits by meeting the increasing local and overseas demand for 'natural' and organic foods, that is even better.

Just as long as no-one pretends that organic agriculture could ever make a greater contribution to human health, prosperity and environmental management than a dynamic and properly regulated GM technology industry.

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I P A

The 'R' Files

ALAN MORAN

Water Conservation: Taxes, Trades and Tribulations

ENVIRONMENTAL GOALS

The growing demand for water's long-standing uses—drinking, irrigation, industry and power—is being augmented by environmental pressures. Television programmes featuring saline-impaired land have fuelled these pressures. They have helped establish a new, taxpayer-funded agenda for rural reconstruction.

Yet, if we look at agricultural output, we find encouraging signs. In the past 40 years, Australia's farm production has increased by 130 per cent. And there is no evidence that we are approaching the limits to increased productivity; in recent years, output has continued to increase faster than inputs. Table 1 offers some quantification of this.

Table 1: Average % Increase in Volume of Farm Output

1951-62	4.0
1962-72	3.5
1972-82	1.0
1977/78-1998/99	2.6

Source: ABARE

These facts suggest that scepticism is warranted with regard to a recent report published by the ACF and NFF.¹ The report calls for additional annual spending of \$3.7 billion by government and \$2.8 bil-



lion by the private sector. It claims that land degradation costs are at least \$2 billion each year, costs that are increasing at an accelerating rate. It estimates that the investment expenditure which it advocates has the potential to generate a 6.5 per cent annual return, for the next 100 years. The arithmetic associated with this failed to convince the Government, and the Prime Minister announced a more modest \$200 million per annum programme of matched Commonwealth/State spending.

EXTERNALITIES

An indispensable key to efficiency is the clear allocation of property rights together with the rule of law and the ability to trade. The importance of the rule of law in allocating water use (where it is scarce) is illustrated by one of the earliest large-scale irrigation programmes constructed in antiquity. This was the ancient Assyrian system, named *Hammurabi the Abundance of the People* after its founding monarch, which interconnected the Tigris and the Euphrates Rivers. Its highly efficient system of water rights allowed an arid area to become fertile but the system decayed once the recognized legal authority was weakened.

REVIEW

ALLOCATING THE USE OF WATER THROUGH PRICING

Pricing and property rights produce the best allocation of resources. Prices condense all manner of values into a single item. The system requires three things:

- that the resource be scarce;²
- the right has to be definable, measurable and hence able to be policed;
- the government must allow water trades.

The richest conservation effort dividend is likely to be found in agricultural production. With some 80 per cent of water use, agriculture's dams and irrigation channels are also rarely fully recouped in the charges to farmers. And there is a considerable number of ways that water can be conserved on the farm—ways that range from drip rather than spray injections to changing crops from water-intensive to low-water-usage varieties.

LOOKING AT SOLUTIONS TO OVER-USE AND ENVIRONMENTAL DEBITS

Application to Use Values

Water rights have usually accompanied title to land. Water in a system that was fully allocated therefore needed to be acquired alongside the land to which it was attached.

Separating water entitlements from land titles allows much greater flexibility. Water can be bought to meet particular needs, for example, seasonal requirements or as supplements where there are drought conditions.

According to the National Competition Council, in Victorian irrigation areas, between one and four per cent of water rights are traded permanently every year, and up to 17 per cent are traded on a temporary basis. The NCC points out that the same megalitre of water that produces a kilogram of rice may provide five to twenty times

the financial return when applied to wine grapes. These sorts of differentials cry out for tradable water rights and the more efficient allocation of water use that such rights permit.

Properly pricing water will have beneficial effects by deterring its over-use and the consequent washing-out of salts from the soil which cause salinity problems. Not only does the farm itself have incentives to economise on water use but the greater value attached to the water encourages conservation in channels with gains from diminished evaporation.

Application to Recreational and Non-Use Values

The recent Victorian election brought to a head the bubbling discontent about the once feted diversion of the Snowy River. This brings into relief the issue of valuing water for direct conservation,

Allocating specific individual ownership rights to water and allowing it to be traded are a well-founded means of maximizing its value

and for use values due to the alleged benefits that the Snowy waters bring through the flushing of fishing grounds.

If, as proposed, 17 per cent of the Snowy waters were to be redirected away from the hydro system, this would reduce the capital value of the system by \$400 million or more. Accompanying this would be an increase in customers' electricity prices and a reduction in the security of supply for electricity. In

addition, irrigators who lose allocations would seek compensation. It is doubtful that the *new* beneficiaries would contemplate paying anything like the sums necessary.

CONCLUDING COMMENTS

Salinity and other water issues have been elevated to considerable importance in Australia. The real issue actually comprises dry land farming in Western Australia and over-use plus salinity through leeching in the Murray system.

Allocating specific individual ownership rights to water and allowing it to be traded are a well-founded means of maximizing its value. This would also be likely to have the beneficial side-effect of reducing salinity. We should grasp such opportunities. But if the problem is as great as some claim, we need other solutions which might well include reducing water availability and increasing its price. We may also need to live with salt levels that are higher than in previous eras. Technology, including biotechnology, may provide some solutions in this respect.

Where full specification of property rights is not possible—and this may often be the case with water—there are persuasive reasons for some intervention, but its quantity and direction need to be carefully assessed.

NOTES

- 1 National Investment in Rural Landscapes, NFF and ACF, May 2000.
- 2 Instructive in this respect is the scene from Lawrence of Arabia where Lawrence's guide was killed for drinking from a well owned by another chieftain. Although Lawrence saw this as an example of the Arabs being a cruel and barbaric race, firm water rights ensured water conservation and use for the most pressing purposes.

Dr Alan Moran is Director, Deregulation Unit, at the Institute of Public Affairs.

I P A

Limiting Greenhouse Warming: Is It Worth the Cost?

GARTH PALTRIDGE

VARIOUS countries have negotiated the Kyoto Protocol in an attempt to limit national emissions of greenhouse gases. The object is to slow or halt the change of climate which may occur as a consequence of 'the enhanced greenhouse effect'.

One would have thought that the negotiations involved some sort of cost-benefit analysis, whereby each nation calculated whether the potential cost of its response to greenhouse warming is justified by the long-term benefit from a reduced impact of climate change.

In fact, no such calculations were made. Nor are they being made now.

We have a rough idea of the costs. Australia for instance (scarcely the biggest player in the global game of greenhouse climate change) has earmarked close to a billion dollars over the next few years to encourage industry to spend its own money on doing something about our national emission of carbon dioxide. We have absolutely no idea of the long-term benefit. For all we know, it may be a long-term loss.

This is a curious state of affairs in an age of economic rationalism. And it is not simply because the calculations are too difficult. While it is true that scientists cannot yet translate their general prediction of an overall warming to the specifics of what might happen in a particular region, and economists cannot yet predict the likely impact of a specific change of climate, these

sorts of practical difficulty have not in the past stopped either scientists or economists from making calculations about the future.

The real reason is political. If there is to be a change of climate, the impact of the change will be beneficial to some and detrimental to others. There will be 'winner' nations and 'loser' nations. Inevitably, if the winner nations are identified by some reasonably legitimate calculations now, they will

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not be persuaded to join the rest of the world in costly greenhouse mitigation.

There is, as well, a rather more subtle reason behind the lack of interest in calculations of long-term benefit.

Consider those climate-sensitive sectors of society which fit the mould of ordinary economics. Agriculture and forestry are obvious examples because the annual value of their production can be measured in dollars. Because one is simply talking about money, their

value is subject to what the economists call 'discount for the future'. This is a fancy name for the bird-in-the-hand principle—namely, that most people would prefer to have a new widget now rather than the promise of a new widget in a few years' time. Indeed, the discount rate for purely economic items is fairly well-established at something like five or ten per cent per year.

Which means that, to us of the present generation, the value of (say) agricultural production 50 or 100 years from now doesn't amount to much, and it isn't really worth spending lots of today's money to limit its possible reduction in the future.

Thus there is almost sub-conscious agreement that, even if climate change is known to be detrimental to future economic production (a very far-from-proven proposition on the national scale) this is not much of a reason for spending today's money. This is why the arguments for limiting greenhouse emission and global warming tend to concentrate on preservation of bio-diversity and the environment. That is, they concentrate on those climate-sensitive aspects of society which are not easily assessable in dollars.

In fact, the environmentalist who is concerned about global warming has an interesting problem. He or she may be quite fond of the idea of assigning a dollar value to each and every aspect of the global environment so that, among other things, estimates of the long-term benefit of green-

house mitigation might be made. But to do so is to accept the tenets of ordinary economics, which include the necessity to accept a discount for the future. Choosing the rate of the discount has to be a value judgement which boils down to stating outright how far into the future the present generation should worry about (that is, spend money on) the welfare of its descendants.

The problem is that, for the long-term benefit to exceed the present-day costs, it turns out that one must choose a rate of discount which is less than about one per cent per year. (The actual value of the sector under consideration doesn't matter all that much.) Put another way, society must be persuaded to spend money for the benefit of generations more than a hundred years ahead. Bearing in mind that none of us is likely to have the personal acquaintance of those generations, it is by no means certain that society would be so persuaded.

The bottom line is that it is much safer not to attempt any quantitative assessment of possible future benefit. It is much simpler to maintain as loudly as possible that climate change is inherently bad because man has had something to do with it, and must be fought at every turn with as many resources as can be assembled. The almost religious righteousness of the argument translates fairly easily into political correctness, and from there into hard political action in the shape of the Kyoto Protocol.

So we will be paying not for long-term benefit but rather for present-day moral superiority. This is fine for most of us because moral superiority is such a nice feeling. On the other hand it is expensive.

Garth Paltridge is Professor and Director of the Institute of Antarctic and Southern Ocean Studies at the University of Tasmania.

I P A

Education Agenda

KEVIN DONNELLY

The Education Olympics: What Place Australia?

How well is Australia travelling on the world stage?

Judged by the Sydney Olympics, we are world's best. Not only did we win the most medals per head of population, but the images and sounds of Sydney beamed around the world showcased us as a confident, energetic and can-do nation.

Unfortunately, winning at sport is not the only indicator of global success. At the same time that Cathy Freeman went for gold, our dollar dropped to a record low. Worse still, commentators such as Bill Gates questioned our info-tech ability and suggested that Australia was in danger of missing out on the benefits of the digital age.

Crucial to success in the new economy is a rigorous and competitive education system. Calls for Australia to be the 'knowledge-nation' reflect this imperative and, as shown by countries such as Ireland, it is possible to match Silicon Valley at its own game.

Is Australia's education system world's best? Judged by international tests like the Third International Maths and Science Study, the answer is 'no'. While we might be a nation of high achievers in sport, in education we drop to the middle of the pack.

The TIMSS study involved testing primary and secondary students from 45 countries in maths and science. Countries such as Singapore, South Korea, Japan, the Czech Republic and the Netherlands consistently perform at the top of the table.

Why do such education systems outperform Australia schools? In

part, it is because countries such as Singapore and the Netherlands adopt a 'syllabus' approach to curriculum development. Teachers and students have a clear idea of what is to be taught and students are regularly tested.

Teachers, in particular in Asian classrooms, also spend most of their time actually teaching, instead of being 'facilitators'. In successful classrooms, there are fewer interruptions, students spend more 'time on task' and there is a strong expectation that all can succeed.

Finally, successful education systems focus on the essential knowledge, understanding and skills associated with academic subjects, and learning strategies include memorization and rote learning.

Although Australian schools once adopted a 'syllabus' approach, they now embrace a so-called 'frameworks' model. Instead of focusing on what students should be taught, frameworks detail what students should achieve or be able to do at the end of the process.

Instead of clearly defining essential learning, frameworks list outcome statements that are vague, imprecise and lacking in academic rigour. More importantly, the curriculum associated with a frameworks approach is a 'mile wide and an inch deep' and students fail to get a rigorous grounding in the basics.

While successful education systems clearly define and test standards at each grade or year level, frameworks embrace a developmental model. The result is that students are promoted from year to year without a realistic understanding of what they can or cannot achieve.

For most Australian students, the first time they sit an objective, com- ▶

petitive examination is in the final year of schooling. Unfortunately, many under-perform or fail because they have progressed through the school system with the mistaken belief that 'self-esteem' is more important than being told that they may have failed.

So heavily criticized is the frameworks approach in America that the word has been banned from the education lexicon. Groups such as the American Federation of Teachers (AFT) argue that frameworks are a disaster.

The AFT also publishes a league table of all the curriculum documents from the various states ranking them from best to worst. The best curriculum is that which is based on the academic disciplines, is specific and measurable, related to grade (year) levels and is assessed on a statewide basis. Needless to say, everything that the Australian curriculum lacks.

Earlier this year, Her Majesty's Chief Inspector of Schools, Chris Woodhead, presented a paper in Melbourne in which he argued that progressive fads like 'fuzzy maths', 'whole language' and process-centred learning associated with frameworks must end. Woodhead argued that schools had to return to a curriculum that promoted academic excellence.

Evidence that Australian education is in trouble is not only found in international tests such as TIMSS. According to research by the Australian Council for Educational Research, approximately 30 per cent of students leaving primary school have unacceptably low levels of literacy.

University academics, in their more candid moments, also complain that first-year students are in-

capable of writing a sustained, fluent and intelligible essay and that courses in maths and science have to be 'dumbed down' because even the best cannot cope.

In part, the problem is because, unlike successful education systems in the Netherlands, Korea and Singapore, Australian schools adopt a 'one size fits all' approach to curriculum development and certification. In Victoria, for example, all students

sit the one senior school certificate, regardless of their abilities, interests or post-school destinations.

Successful overseas education systems adopt the opposite approach where there are separate and distinct certificates ranging from the academic, to the vocational, to the general.

Such was the poor showing by our athletes in the Olympic Games that the then Fraser Government established the Institute of Sport in Canberra. The result is that Australian athletes achieved their best performance ever in the Sydney Olympics.

Central to the approach adopted by the Institute of Sport was identifying international best practice and ensuring that Australians learned from what was happening overseas. The Institute also promoted excellence and competition and provided the resources where individuals could excel.

As we attempt to catch up to countries like Ireland in the digital revolution, one wonders whether the same can happen in Australian education.

Dr Kevin Donnelly is Director of Education Strategies, a Melbourne-based consulting group.

I P A

Musing...

by **MIKE NAHAN**

History often seems to go in circles and, in the process, offers lessons for even the most modern of problems.

Back in 1966,¹ India was ready to begin field trials on a new variety of wheat which promised to revolutionise Indian agriculture.

The process, however, was being impeded by a raft of protesters. Village leaders claimed that the new seeds would introduce foreign pests and disease. Nationalists decried the seeds as an American plot. (They were developed with funding from the Rockefeller Foundation and by a team lead by an American scientist, Norman Borlaug.) The opposition parties saw the issue as a means of scoring political points. The bureaucrats alleged that things were going too far, too fast and undermining their authority.

Mr Chidambaram Subramaniam—the cricket-mad Minister for Agriculture in cricket-mad India—hit upon a novel solution to break the political impasse. To show the strength of his support for the new technology, he sacrificed his beloved cricket pitch in his backyard to grow the seed. Although this sacrifice did not satisfy all the critics, it made sufficient impact to allow field trials to go ahead.

The trials were successful beyond anyone's imagination. The pariah seeds were widely adopted by farmers. The wheat harvest increased sixfold over the following decades and, thanks largely to the new technology, thousands of Indians were saved from starvation and India become an exporter rather than a large importer of wheat.

The lesson for today's politician? Taking a considered political risk with biotechnology may lead to immortality!

¹ Information drawn from *The Economist*, 18 November 2000, page 123.

Is Australia's education system world's best? Judged by international tests like the Third International Maths and Science Study, the answer is 'no'

Compiled by IPA staff, columnists and consultants ...

WHAT'S IN A NAME?

Dave Collis, from Jubilee2000-Coalition, an NGO advocating debt-forgiveness for the developing world (and not to be confused with Jubilee2000 which advocates radical transformation of global society and capitalism), gave a fascinating insight into the thought and actions of 'respectable' NGOs at a recent conference run by the trade unions and those warm, cuddly people of S11, the anti-World Economic Forum (WEF) demonstrators.

Dave apologized for the absence of the Jubilee2000Coalition from the protests at Crown Casino during the WEF. According to Dave, Jubilee's 'conservative demographic' made it too dangerous to 'risk brand-name damage' through association with S11. By 'conservative demographic' does Dave perhaps mean that the likes of Archbishop George Pell and other senior Church leaders would not be impressed with a NGO to which they had given their imprimatur, running around with anarchists, international socialists and communists?

As for 'brand-name damage', this offers a fascinating insight into the way activists now think and how NGOs value their brands like the corporations they target. Food for thought.

But back to Dave. After apologizing for Jubilee's absence, Dave did reassure the assembled activists that all of Jubilee2000Coalition's staff were in attendance 'on the barricades' attempting to blockade Crown and deny the conference delegates a chance to attend the WEF.

DENY THEM WORK TO GIVE THEM AID

At an 8 September Seminar organized by the Australian Council for

Overseas Aid as part of the lead up to the anti-WEF demonstrations, Doug Cameron from the Amalgamated Manufacturing Workers' Union argued that Australia should have tariffs so as to allow a stronger national economy to lend greater assistance to poor countries in the future.

So, we should make it more expensive to buy the products of the developing world, thereby denying them work (and lowering our standard of living), so we can give them more aid.

Pushing claptrap like this, it is little wonder that the people of the Third World do not want a bar of our unions.

WHAT BUSINESSES ARE WE IN AGAIN?

The joke about New Zealand used to be it was the only Third World country where you could drink the water. The Clark Government seems to want to make the joke relevant again. It has announced a complete ban on use, development and testing of any genetically modified crops pending a Royal Commission, with many in the Government hoping to see a permanent ban.

About 60 per cent of New Zealand's economy is based on biological production (agriculture, forestry, fishing and related industries). About 30 per cent of their exports come from those industries. They have to export into some of the most protected markets in the world, where only higher productivity can keep them in touch with the game. And the Clark Government wants to delay, and even ban, the most important technology in increasing productivity in those industries? Presumably so the Kiwis can be pure, green ... and poor (except, of course,

the poor have more urgent things on their mind than environmental amenity and posturing).

YES VIRGINIA, REGULATION CAN KILL INDUSTRIES

Not that we should crow too loudly. The Federal Government has proclaimed that biotechnology is the wave of the future and is pumping hundreds of millions of dollars into it. It has also imposed the world's strictest regulatory regime, announced to be on a full-cost-recovery basis. Unfortunately, a KPMG study found that the cost of the regulations would approach, or even exceed, the size of the Australian market for many of these products. We think it a safe bet that few companies will bother to proceed.

But that is government for you, giving with one hand, taking with another. With lots of public servants employed on both the swings and the roundabouts ...

PROFESSIONAL JEALOUSY

The inimitable Matt Drudge likes to report on the foibles of the US media. Earlier this year, Drudge told us of an interview by heart-throb actor Leonardo DiCaprio (of *Romeo and Juliet* and *Titanic* fame) with President Bill Clinton regarding an Earth Day news special for the (American) ABC network which got journalists all upset, since they felt it was completely inappropriate for an actor to conduct such an interview.

Of all the things about which people might get jealous of young Leonardo, to do so for his spending time with Bill Clinton is not quite what one would have expected ...

IPA

Letter from London

JOHN NURICK

Perverse Incentives and the Marquee de Sad

Prime Minister Tony Blair recently came as close as a politician ever does to apologizing for wasting our money. The famous Millennium Dome has cost about \$2.5 billion, most of it from the national lottery, and is receiving half the predicted 12 million visits. This means that it's costing about \$400 per visitor: why didn't the Government just simply set up a stall in Trafalgar Square and give away ten-pound notes? There will be some lasting economic-regeneration effects—but these could be achieved for a fraction of the cost of what one wit called 'the Marquee de Sad'.

Mr Blair said that he now realized that building and running a large visitor attraction were too difficult a job for government. So it's just as well he's not trying anything really tricky like a health service or a social security system, isn't it?

The railways, of course, were sold off by the last Conservative government. One company, Railtrack, owns the track and the stations. Leasing companies own the rolling stock. Train operating companies have franchises to run trains on particular routes. They lease the rolling stock from the leasing companies, pay Railtrack for the privilege of using the track, and collect fares from the passengers and subsidies from the Government (the franchises were basically awarded to the companies that bid for the lowest subsidy).

A while ago, I wrote here that privatization seemed to be working. Certainly, on the lines I use most, between London and the south coast, the trains and stations were cleaner. Trains were more frequent



and more reliable than under the nationalized regime. Much the same was true on many other lines. Most encouraging, there were signs that the various players were learning to make the system work and that it would become responsive to market demand.

I was wrong. Since then, things have got worse and worse, not better and better. Connex, the company that operates the south coast trains, fell so far short of its performance targets that the rail regulator terminated its franchise (from the end of the seven-year term, in 2003).

There are many reasons for all this. Partly it is the fault of the Conservatives, who privatized in haste before they lost the 1997 election, and devised a structure that has serious flaws. For instance, economic growth means more people want to travel, but the structure of payments between the train operating companies and Railtrack gives the latter no incentive to make infrastructure investments that would increase the capacity of the network.

Partly, it is the fault of governments of both parties that starved the railways of investment for most of the half-century they were nationalized—especially during the period leading up to privatization, when al-

most all investment decisions were shelved.

But most of all, it is the fault of the railway companies, especially Railtrack. Late in October, an express train jumped the rails in Hertfordshire. Four people were killed. It rapidly emerged that the cause was a broken rail, and that Railtrack had known for months that it needed replacing. Within days, hundreds more places—300 miles in total—were found where the track urgently needed replacing. This will take months; meanwhile the trains trundle along at 70 km/h instead of 140, and the timetable is in chaos.

Railtrack has failed in its most basic task, looking after the infrastructure. One has to suspect that the top managers were bored with the mundane task of looking after thousands of miles of aged track and signals. How much more interesting, and more profitable for the shareholders, to develop the railways' massive property holdings!

Having failed with the Dome, the Government decided it didn't want to take on the railways again. It had already taken steps which will improve the strategic management of the network and remove many of the perverse incentives. Following the latest crash, it promised Railtrack billions of pounds for track improvements, but didn't (as any private sector organization would have) take an equity share in return. Lines of responsibility for safety will be clarified. And in two years' time, perhaps I'll be writing 'Privatization seems to be working' once again!

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

I P A

REVIEW

Family and Work

ANDREW McINTYRE

Can the Family Be Rescued?

There has been much debate and soul-searching in the media recently about marriage following the Coalition's push to promote debate about institutional support for families.

The Attorney-General, Daryl Williams, believes that the intended reforms have the 'potential to reduce the high rate of marriage breakdown that is, sadly, almost taken for granted these days'. The proposal is to facilitate marriage preparation, and counselling and education for parents through the training and accreditation of marriage celebrants.

It is clear that marriage breakdown and divorce itself come at a massive economic and social cost, not to speak of emotional upheaval and untold damage to children, and the consequent flow-on effect to the community.

The most thorough statistical analysis of marriage to date comes from Linda Waite, sociology professor from the University of Chicago and 1999 Chairman of the American Sociological Association's family committee, in a book co-authored with Maggie Gallagher, *The Case for Marriage: Why Married People Are Happier, Healthier and Better Off Financially* (Doubleday). Using a statistical analysis rather than a moral one, the authors claim that marriage is a bargain, for both men and women, and few of us can afford to pass it up. The benefits derive from economies of scale—two people can live together for the cost of 1.6 people—from the specialized division of labour within the household and the

measurable positive effects on health, parenting and sex life.

One of their most interesting revelations is the difference they observe between married partners and cohabiting partners. Even if they have children, couples who cohabit out of wedlock tend to behave as if their relationship were impermanent, so they avoid specialization—and lose out on the interdependence that produces many of marriage's biggest boons. The expectation of permanence and mutual reliance provides real, measurable advantages.

But what can governments do to improve marriages? There are many reasons given for the decline of marriage in the Western world, but the common overriding factor is surely the economic freedom and independence which women have gained. That women can leave a marriage and survive economically or choose easily when or not to have children through efficient contraception are the biggest changes in the history of human relations. Certainly the introduction of no-fault divorce laws and the single mother's pension in 1975 had an almost instant and direct effect on the increase in divorce, but they were nevertheless *post ipso facto* responses to changes in expectations and social realities.

In light of these profound changes, one must wonder about the Government's present attempt to curb our divorce rate. Waite and Gallagher put the extreme options bluntly: 'If you were going to design a society with enduring marriages from scratch, and your options were (1) economic fetters on wives and legal fetters on husbands, or (2) economic and legal autonomy for both spouses, who

would be asked to respond to this freedom with emotional maturity, the choice would be obvious. Keep women dependent, men obligated, and divorce illegal'.

Such a course of action is simply not possible. Waite and Gallagher, however, make some unproven suggestions which they feel could have some effect towards reversing divorce rates. In the Australian context, these would include income-splitting, tightening up of divorce laws and providing marriage education for prospective couples. But given the long-term trends, and given that marriage already has very tangible benefits, it is hard to be convinced that these changes would do anything substantial. As for marriage guidance, many commentators in Australia feel that the Government's present proposals will be both messy to implement and ineffective.

Over 150 years ago Alexis de Tocqueville said, 'An American will build a house in which to pass his old age and sell it before the roof is on; he will plant a garden and rent it just as the trees are coming into bearing; he will clear a field and leave others to reap the harvest; he will take up a profession and leave it; settle in one place and soon go off elsewhere with his changing desires....' This observation is uncannily prescient with regard to modern marriage. On top of this restless individualism in new world cultures, one should add that while the tendency to sexual equality is inevitable, it is indisputably the central factor responsible for present-day divorce rates.

Andrew McIntyre is Public Relations Manager at the Institute of Public Affairs.

I P A

**THE INFORMATION MONOPOLY**

Who cares whether the Australian media is owned by one or a dozen? By nationals or multinationals? By individuals or corporations?

Perhaps this once mattered. And perhaps the alleged media concentration that so creases the brows of so many of the chattering classes, who promptly petition the Government to make rules to limit concentration, is due to the Government's rules in the first place. Anyone can publish a newspaper (although it takes significant resources to actually print and distribute it). But no one can operate in Australia in the broadcast media without the say-so of the Australian Government and a whopping big pile of money to buy a slice of the broadcast spectrum ... unless, of course, you already have a TV station—in which case you get more spectrum for free!

At one time it looked as though space might be the answer to this problem. Satellite broadcasters would, of course, be well beyond the jurisdiction of terrestrial governments. All the latter could do, in a flashback to various Iron Curtain policies, would be to attempt to jam the transmissions. But government has restricted this as well. One agency in particular: NASA. Through the commonly employed tactic of subsidy, it has managed to kill all potential commercial space launch operators and thus keep prices high (currently around \$40,000 per kilogram of payload to low earth orbit). Where are the government competition regulators when you need them?

So, as again so often happens, the answer to centralized media was totally unexpected. The originators

of the Internet Protocol didn't envisage its major use: e-mail. And they certainly didn't expect it to become the only significant source of contrarian opinion available to billions around the world. Yet that's what it provides.

PRODOS

Are you often disappointed when you hear industry representatives being interviewed, usually on ABC radio, about some current environmental issue? Do you sense a tone of appeasement, an abandonment of principle? Do you sometimes burn with impatience, thinking how if it were you there, you would put forth trenchantly a mighty précis of businesses' value to the community, the benefits they bring to society? I know I do!

The tone for most interviews is set by the interviewer. Imagine what it would be like if the interviewer were on businesses' side.

Melbourne personality Prodos, until recently presenter of his own show on community radio, sometime busker, and consistent Objec-



tivist and lateral thinker, now also hosts a thought-provoking Website featuring many interviews presented in Real Audio. With thoughtful regard to those of us who pay by the minute for our online time, these

can be either listened to from the site or downloaded for later. Go to:

<http://www.prodos.com/>

As I write there are online interviews concerning the conflict between Israel and Palestinians (almost uniquely, from an anti-Arafat perspective), the Australian Skeptics, the destruction of real art thanks to government funding of 'Art', and the possibilities for reform of Australia's social security system, this last with the IPA's own executive director, Mike Nahan.

ABC

Now some may object to a reference to the ABC's Website in this column, but the fact remains that the ABC, especially Radio National, offers one of the few regular venues of intelligent, no matter how objectionable, radio fare. The reason is, of course, that its very existence makes the operation of a commercial station of thoughtful, and sometimes eloquent, talk uneconomic. (The ABC could easily achieve one of its great aims—the elimination of Alan Jones and John Laws from the air waves—simply by providing somewhat conservative announcers in the same time slots.)

Many Radio National shows are available, both live and as recordings (and frequently transcripts) from its site at:

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

RUSH LIMBAUGH

The bane of the American Left, Rush Limbaugh has a Website (who hasn't, these days?) offering his pearls of conservative wisdom. More





importantly, if you can work out the time differences (when, precisely, is noon US Eastern time in this part of the world?) you can listen to his radio show for three hours each day. Go to:

<http://www.rushlimbaugh.com/>

RADIO STATIONS GALORE

How can you possibly give an idea of the range of radio station sites available all around the world? You can't, or at least, I can't. But



the Internet Radio List may well. With 2,000-odd Internet stations listed (including 120 talk stations), you could devote a goodly part of the rest of your life exploring them all! Go to:

<http://internetradiolist.com/>

PRINT MAGAZINES ... ONLINE

The big problem with the sites mentioned so far is that you have a choice between two expensive alternatives. You can listen to the show online or you can download the audio file and listen to it later. In either case, you or someone else will be paying as the minutes tick over, or the megabytes flow. Take the Prodos Israel/Palestinian interview, for example. This 40-minute file of indifferent audio quality

(even though the content is excellent) is more than five megabytes long. A good connection should deliver it in less than half an hour if you download. My connection took 40 minutes.

So, as it is in real life, the electronic printed word is a far more efficient way of gleaning information than the spoken one. Yet there is a real dearth of alternative printed media in Australia (you are presently reading one of the very few contrarian publications published here!). The United States has many more, but once again they cost real dollars since their Australian distribution is iffy at best.

So why not check out their online versions? Some are a month behind, to avoid cutting into their print sales. The following are all excellent.

New Criterion—with thoughtful essays on the Arts and political philosophy. Go to:

<http://www.newcriterion.com>

The American Spectator—a rambunctious, aggressive and very enjoyable monthly, it loses none of its pizzazz online and allows you to get all the good stuff out of past editions. Go to:

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

National Review—one of the longest-standing conservative monthlies, William F. Buckley's baby remains alive and well on the Web, even if nearly impossible to get hold of in the print version here. Go to:

<http://www.nationalreview.com/>

Reason—edited by Virginia Postrel, recently a visitor to Aus-

tralia as a guest of the IPA. If you wish to immerse yourself in thoughtful libertarian writing for a few months, go here because the archive contains the full text of the magazine for the past six years!

<http://reason.com>

Liberty Magazine—a bimonthly dealing with US Bill of Rights issues, especially part of the First Amendment (separation of Church and state). Go to:

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

The Washington Times—yes, there really is another newspaper in Washington besides the liberal-oriented *Washington Post* of Wood-



ward and Bernstein fame. This one publishes conservative and contrarian opinion writers (for example, Steve Milloy of Junkscience.com) and suggests that there might be clear thinking somewhere, after all, in Washington DC. Go to:

<http://www.washingtontimes.com>

FEEDBACK

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

The Power of None

LEON BRADLEY & DAMIAN CAPP

AUSTRALIA being a highly urban society with relatively few people involved in agriculture, it could not be expected that many Australians would know that grain farmers in this country labour under a form of economic dictatorship known as statutory marketing.

The essence of statutory marketing schemes involves the government, State or Federal, directing farmers to surrender their grain to the authorities for 'marketing'. For more than 60 years it has been assumed that the authorities have superior capacities than those possessed by individual farmers and, therefore, that decisions concerning grain marketing should be the exclusive province of government or its appointees.

It was inconceivable that State authorities blessed with such power, foresight and knowledge could make mistakes or be in error. This view suffered a mortal blow when the Reserve Price Scheme for Wool collapsed, decimating the once great wool industry. Wool producers today are still paying for errors made by the authorities over ten years ago.

Fortunately, the grain industry has not reached such a state of decline, but it has been clear since the McColl Royal Commission into grain storage and handling of the late 1980s that development and innovation have been suppressed and better and cheaper ways of doing business have never seen the light of day.

These deficiencies are widely recognized even from within the industry itself but they blame each other. AWB CEO Mr Lindburg said recently that, 'industry must look at the infrastructure costs associated with getting the grain from paddock to port. Over the past forty years, growers have achieved

a 4 per cent annual productivity increase but the storage, handling and transport sectors have not reflected a similar productivity increase'. On the other hand Grainco, the former Queensland statutory handler and marketer, estimates that \$120 million to \$360 million a year in costs could be eliminated if AWB did not exert such control over the system. Imposing minimum standards on each delivery, restrictions on deferred deliveries to ports, discouraging the warehousing of grain, arbitrarily closing different ports, setting minimum volumes on pools, disabling handlers from swapping stocks across the network: all impede efficient grain movement.

Both parties are probably right because it is the system that is the problem—but the system is sustained by politics and political intervention. What we have is political grain marketing which was confirmed by an industrial chemist recently who analysed some Australian wheat and found it to be 10 per cent grain and 90 per cent politics.

Politicians sustain this system and they fear losing votes if they dare to recommend change.

At the time of writing, the New South Wales Grains Board has a deficiency of assets over liabilities of an estimated \$90 million. NSW farmers have commenced harvest and by law they must deliver their produce to the NSW Grains Board; yet it is uncertain what impact this unsatisfactory situation will have on their financial returns. Incredibly, the NSW Government has just extended the Grains Board's monopoly for another five years. Maybe a \$200 million loss would have been rewarded with a ten-year extension of the monopoly.

AWB Ltd and State monopoly marketers claim that their privileges

which effectively shield them from the law (for example, the *Trade Practices Act*), are to the advantage of Australians because they give these bodies 'market power'. That is, by commandeering supplies they can cause customers to pay more than they otherwise would by withholding their inventory. What happens to the withheld supply is not a subject deemed suitable for investigation by ordinary folk.

These claims of mystical powers have come under increasing scrutiny over the years, not the least by Alistair Watson, an agricultural economist who has stated that 'for claims about the single desk to be true, that is, price premiums are achieved through market power not differences in quality or service, customers would have to be ill-informed, passive or lacking in commercial acumen (or all three). This does not accord with most people's experience in international trade'.

The supreme irony is that for 60 years farmers have been deceived into believing that the so-called single desk makes us monopoly sellers of grain when, in fact, the institution established is that of monopoly buying.

For those farmers who would like the responsibility of making the decisions that directly affect their business, for those who would like to pursue opportunities not sanctioned by the authorities and for those simply looking for less costly ways of doing business, help may be in the offing.

Under the National Competition Policy Agreement, signed by the Federal and all State and Territory governments in 1995, any anti-competitive item of legislation must be reviewed and subject to the public interest test for a net public benefit. If there is no net public benefit, an au-

automatic recommendation to repeal the offending legislation must be made. The National Competition Council was constituted to oversee the process and provide advice to the Federal Treasurer and State and Territory governments on the process.

Earlier this year the much-delayed review of AWB Ltd's powers and privileges was initiated. A three-person independent panel was appointed by Minister Truss to conduct the review. It has been widely publicized and evidence, both written and oral, has been submitted. It is a unique review. Never have the AWB's powers and performance been scrutinized in such an open and transparent fashion. Previously, such reviews have been 'Claytons' reviews where a closed circle of cronies from agri-politics and the National Party have cut deals and traded favours behind closed doors and then had the result made binding by government.

AWB Ltd resents this new era of accountability, which is foreign to its culture. After all, it sources its supplies by government decree, it is guaranteed full cost recovery before it makes any payment to producers and even when it came to raising capital it did so by compulsory levy, which has consumed \$600 million of producers' disposable surplus over the last ten years. Above all, it has nothing to fear from competitors with a lower cost base winning business away.

AWB Ltd has used its privileged access to growers' funds to unleash a blitzkrieg of propaganda, platitudes and rhetoric on its farming constituents, even to the extent of raising a campaign glorying in the virtues of the Power of One. It has painted a picture of a desolate countryside and deserted towns, wholesale unemployment and depression if its powers and privilege are in any way curtailed.

AWB Ltd's efforts have been directed towards creating an environment where an independent assessment of the facts could not take place. It then hoped to have accepted as fact a long list of shallow claims and distortions.

Yet all this subterfuge has been to no avail. The independent review panel has dismissed the overblown rhetoric, one-liners and populist cant of the supporters of single-desk marketing. The review panel has issued a draft report with preliminary views rather than final recommendations. These views, however, suggest that major reforms for wheat export arrangements are on the way. The bulk export of the specialist pasta wheat known as durum would be deregulated for a three-year trial period. There would also be a trial period of less regulation surrounding the export of

***AWB Ltd has painted
a picture of a
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and depression
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way curtailed***

wheat in containers. This trade has grown considerably in recent years, seeking out niche markets at premiums to bulk exports.

The Federal statutory agency known as the Wheat Export Authority (WEA), which has a statutory function controlling wheat exports, would also be reformed and its charter changed. Currently the legislation gives AWB Ltd and the Grains Council of Australia considerable sway over the WEA. The review panel has also invited comment on a trial of deregulating the export of bulk wheat, other than durum wheat, to destinations where AWB Ltd cannot prove that it generates a premium from its legislated privilege.

The Competition Policy Review Panel ideas, if implemented, will loosen AWB's iron grip on the wheat industry. They will introduce some points of comparison so that farmers can assess for themselves the merits of AWB's performance and they will have the added advantage of encouraging competition in the supply chain. These reforms are set to revitalise a significant part of rural Australia by allowing the application of individual initiative and energy to one of Australia's major resources.

When the independent panel delivers its final recommendations, it will then be up to the politicians to implement them. We hope that Mr Howard is guided by the principles espoused in his 1995 lecture series—'The role of government, the modern liberal approach'—which we have 'adapted' and paraphrased here:

The essence of the coalition's grain marketing policy is an unswerving belief that individuals should have the right to decide. They should be free to sell their wheat to the AWB or any other agent. They should be free to choose their own marketing arrangements. They should be free to conduct negotiations on their produce themselves or have someone do it on their behalf.¹

NOTE

- 1 The actual text of Mr Howard's speech reads as follows: 'The essence of the coalition's industrial relations policy is an unswerving belief that individuals should have the right to decide. They should be free to join or not to join a union. They should be free to choose their own workplace arrangements. They should be free to conduct any negotiations on workplace arrangements themselves or to have someone do it on their behalf.' John Howard, 'The Role of Government, the Modern Liberal Approach', Menzies Research Centre, 1995, page 17.

Leon Bradley is Chairman, Western Grain Growers of WA and Damian Capp is Policy Director for Grain.

I P A

The Terminal Decline of Australian Trade Union Membership

MURRAY CRANSTON

AT 25.7 per cent of the workforce, membership of the Australian trade union movement is now at its lowest level since its official recording began. While to many in the union hierarchy this represents an alarming development, what should be of greater concern is evidence suggesting that this decline may now be entering a new, more accelerated phase.

As a share of the workforce, union membership in Australia has been declining steadily since the Australian Bureau of Statistics first included this figure in its labour force survey in 1976. The election of several conservative State governments in the early 1990s, however, and the advent of the Keating Government at the Federal level coincided with significant new losses in union membership. Throughout the Kennett Government's term of office, for example, union membership in Victoria went from 37.8 per cent to 24.4 per cent of employees, now the second lowest of any State in Australia. The election of a Liberal government in South Australia in 1993 corresponded with the general demise of union membership in that State, which fell from 44.3 per cent to 30.2 per cent. Furthermore, since the election of the Court Government in Western Australia, union membership has fallen from 34.5 per cent to the lowest level in the country now at just 20.4 per cent.

At the Federal level the union movement was hardly able to rely on the Keating Government. Aside from its penchant for privatization,

the implementation of that government's groundbreaking *Industrial Relations Reform Act 1993*, which adopted enterprise bargaining at the Federal level, greatly assisted in creating an environment conducive to deteriorating union membership. In fact, during the period between 1992 and 1996, the Keating Government oversaw a massive eight-and-a-half per cent decline in union membership as a share of all employees—the largest rate of decline to date. In light

Membership of the Australian trade union movement is now at its lowest level since its official recording began

of this, the Howard Government's *Workplace Relations Act 1996* merely represents a logical, albeit modest, evolutionary step in a process first initiated by the former Keating Government's 1993 legislation.

Aside from various legislative attempts to move towards a more deregulated labour market, there are many other different variables contributing to the steep decline in union membership in this country. Although it is not possible to recount

them all here, the rigidity and strength of these forces mean that it is becoming increasingly futile for most unions to devote their diminishing resources to stem what is now becoming a near-fatal decline.

One of the strongest such influences has been the widespread infusion of competition into virtually all sectors of the Australian economy. In the deregulated telecommunications industry, for example, the number of licensed competitors has gone from three in 1996 to 50 in the year 2000. This increasingly intense competitive environment is leading to widespread rationalization within the industry. In March of this year, Telstra undertook a \$650 million cost-cutting program which will result in 10,000 jobs disappearing over the next two years, and a further 6,300 jobs being cut if the company's Network Design and Construction Ltd unit is floated. This rapid and intense restructuring is compounding the demise of the main union within the communications sector, the Communication, Electrical and Plumbing Union (CEPU). Between June 1995 and December 1999 the CEPU's membership fell from 161,720 to 123,652, or by 23.5 per cent. Much of this decline had been occurring before the full effects of the partial privatization of Telstra and the deregulation of the telecommunications industry had really begun to flow through. In the next few years, the CEPU should consider itself fortunate if its membership only declines by 10,000 a year.

Rationalization of a similar intensity is also occurring within the fi-

nance and insurance sector and this is having serious ramifications for the Finance Sector Union (FSU). AMP, for example, is planning to eliminate up to 3,500 positions, Westpac outlined plans in late 1999 to cut 3,000 jobs and National Mutual is now set to cut its entire workforce by a quarter. The Commonwealth Bank of Australia (CBA) has already started eliminating 2,000 positions from its workforce, while the National Australia Bank recently told investment analysts that, without growth elsewhere, its new e-commerce initiatives could see the end of 6,000 jobs within the company by 2005. Meanwhile, the FSU's membership has already plummeted from 110,386 in June 1995 to just 83,073 in December 1999—a massive 24.7 per cent fall. As these figures barely take into account the effect of this latest wave of restructuring, the FSU's leadership could be truly proud of itself if the union is able to exist in its current form during the next five years.

Yet another factor contributing to the demise of union membership is the noticeable change occurring in employers' attitudes in their negotiations with unions. Some of Australia's largest companies are now taking the strongest stands against unions in their corporate history. Telstra and the CBA, both of which were once sympathetic to union demands on account of their history of public ownership, are now at the forefront of this new approach. BHP and Ansett, previously good examples of private-sector companies that generally complied with union demands, have also now hardened their attitude. Looking back over the last decade, the current union hierarchy must be disheartened to see so many of its members disappear during a period when employers were generally much less likely to be so rigorous in their dealings with them.

One product of this new employer outlook has been the increase in non-union agreements and other more flexible arrangements such as the Federal Government's Australian Work-

place Agreements (AWAs). Non-union agreements made under section 170LK of the *Workplace Relations Act 1996* have gone from 5 per cent of all agreements certified in 1997 to 12 per cent by the end of 1999. The number of AWAs are also beginning to rise dramatically and, while their number currently stand at 134,854, they are now growing at a rate of around 6,000 a month. The more hardline approach taken by employers is being

Some of Australia's largest companies are now taking the strongest stands against unions in their corporate history

reflected in their increasing willingness to insist on offering contracts to their workers. BHP, for example, recently offered non-union contracts to 1,000 of its workers in the Pilbara region for the first time in its corporate history. The CBA has become the first bank to offer non-union AWAs to its 28,000 employees. Telstra, having already put most of its upper management on non-union AWAs, is now also looking to extend these agreements to the rest of its employees.

The union movement in this country should be troubled that its membership base has dissolved so rapidly during a period of relatively modest workplace reform, substantial political protection and a generally compliant employer attitude. In Great Britain, by contrast, the union movement had to contend with a Conservative government which privatized nearly everything from prisons to nuclear energy, introduced deregulation

on a massive scale and passed into law five waves of strong, anti-union reforms. After 18 years of such policies, and a Labour government that has since kept most of these laws intact, union membership in Great Britain in 1999 stood at 29.5 per cent—still nearly four percentage points higher than in Australia. How can Australian union membership be declining at a rate faster than British unions under Thatcherism when our Federal Government is still struggling to pass legislation to remove union picnic days?

This political protection and favouritism which unions have enjoyed, and to a large extent still are, have also been a curse. They have entrenched inward-thinking and self-interest throughout the union hierarchy and they have encouraged the type of complacency and indifference that have allowed the decay of its membership base to go unchallenged. While these characteristics were becoming entrenched, our economy was, and still is, changing dramatically. The waves of rationalization and restructuring that have been unleashed by the forces of competition have essentially caught the union movement unprepared.

There have been a series of half-hearted recruitment campaigns by the ACTU throughout the last decade in a vain attempt to arrest the decline in numbers. Unfortunately, all the time and resources that were devoted to such a strategy, like the \$10 million recruiting drive in 1996–97, have been for nothing, as union membership has only continued to plunge faster. If Australian unions, with the substantial political protection they have at their disposal and a combined revenue base at around \$500 million per year, have only been able to accelerate the desertion of their members, it can be said that they are now entering a new phase of terminal decline.

Murray Cranston is a Research Officer for Senator Jeannie Ferris.

I P A

Summaries and excerpts from interesting reports

DISTRIBUTION OF THE ECONOMIC GAINS OF THE 1990S **BY DEAN PARHAM ET AL**

A report from the Productivity Commission into the improvement in Australia's economic performance over the 1990s—high economic growth, low inflation and increased resilience to economic shocks—has found that Australia's surge in productivity growth in the 1990s fuelled an acceleration in growth in total income and in average income:

- annual average income growth accelerated from 1.4 per cent in the 1970s and 1980s to 2.5 per cent in the 1990s; and
- faster productivity growth accounted for over 90 per cent of the acceleration.

The income growth of the 1990s was distributed evenly between labour (wages and salaries) and capital (profits) with both showing a stable share of total income.

Strong productivity growth enabled strong growth in both real wages and profits. Since the growth in real wages was accompanied by employment growth and falls in unemployment, those with jobs and those looking for work both benefited.

A change in distribution of income towards capital in some industries—electricity, gas and water, and communication services—was counteracted by a change in the distribution towards labour in other industries.

Productivity gains at the industry level have been predominantly passed on in the form of lower prices. This is particularly true of the 1990s, suggesting that stronger competitive pressures have been at work.

Source: Productivity Commission, Staff Research Paper, November 2000.

And some pieces from the National Centre for Policy Analysis (NCPA)

CHILD ABUSE FELL AS WELFARE CLIENTS WERE REQUIRED TO WORK

Four years ago, opponents of welfare reform raised the spectre of increasing social ills if beneficiaries were forced to work. But those dire warnings didn't come true, studies have shown. In fact, the results have almost invariably been beneficial—not least to those formerly on the dole.

One of the dire warnings heard then was that the foster care system would be flooded by a new wave of abused children. It didn't happen.

- Confirmed cases of child abuse and neglect have actually fallen since 1996, according to two studies.
- Federal statistics show that confirmed cases of mistreatment of children fell from 1,019,000 in 1993 to 903,000 in 1998.
- One study reports that the number of children entering foster care has been stable or falling slightly in recent years—with 3.3 children out of every 1,000 entering foster care in 1999, compared to 3.87 in 1994.

The studies were undertaken by the Urban Institute and the Chapin Hall Center for Children at the University of Chicago. Those involved in both studies caution that the results are preliminary and more data will become available over time.

Source: Somini Sengupta, 'No Rise in Child Abuse Seen in Welfare Shift', *New York Times*, 10 August 2000.

BANNING DDT IS ECO-COLONIALISM—NEW STUDY

The United Nations Environment Program is pushing a worldwide ban

on the pesticide DDT as one of 12 'persistent organic pollutants.' This has sparked a debate about the use of DDT to control malaria in developing nations. Malaria annually sickens at least 300 million and kills more than one million, mostly children, in the poorest tropical nations.

DDT was banned from agricultural use in industrialized countries due to concerns about its effects on birds of prey. However, the dangers of DDT from concentrated agricultural use differ significantly from spraying the interior surfaces of homes and huts. The concentration of DDT used to spray a house once or twice yearly would have an environmental effect less than 0.04 per cent of the effect of spraying a 320-acre cotton field.

DDT repels and kills mosquitoes, decreasing both the odds of being bitten and the survival of parasite-carrying mosquitoes that can infect others. After five decades of experience, even environmental groups like Physicians for Social Responsibility concede that DDT is 'highly effective' in malaria control.

- Despite international pressure to discontinue use of DDT, Ecuador renewed house spraying in the early 1990s and saw a rapid decrease in malaria cases.
- In less than 20 years of spraying houses with DDT, Sri Lanka reduced its malaria burden from 2.8 million cases and 7,300 deaths to 17 cases and no deaths.
- India and South America achieved similarly impressive reductions and several countries fully eradicated malaria.

Malaria subtracts more than one per cent of the gross domestic product growth rate of sub-Saharan nations, where the compounded loss since 1965 now reaches up to \$100 billion a year in forgone income. Critics argue that

rich nations insisting that poorer nations do without DDT are exercising 'eco-colonialism' that can impoverish no less than the imperial colonialism of the past.

Source: Amir Attaran, *et al.*, 'Balancing Risks on the Backs of the Poor', July 2000, *Nature Medicine*.

For report: http://www.nature.com/cgi-taf/DynaPage.taf?file=nature/journal/v6/n7/full/nm0700_729.html

UP AND DOWN THE INCOME LADDER

Politicians addicted to class warfare rhetoric use the term 'the rich' as though it were some permanent economic class. But more analysts point out that individuals move up and down the income ladder with startling frequency.

Are those individuals with higher incomes right after graduation from high school or college still on the top rung ten or 20 years later? Anyone who has attended a school reunion knows that the end results are often surprising.

- A Social Security-based study has documented that more than 70 per cent of male workers move significant distances up or down the income ladder in a span of only 15 years.
- Earnings histories tracked by Social Security show that less than 50 per cent of the people on the top or bottom rung in any year are still on the same rung 10 to 15 years later.
- On the bottom rung, the 'stagnation rate' is only 35 per cent.
- Another study, using the National Longitudinal Survey of Youth, has revealed that 60 per cent of the young people who start out working for minimum wages no longer work for such low wages two years later—and only 15 per cent have minimum-wage jobs three years later.

Some observers point out that many academics fail to appreciate the dynamics of economic mobility because they work in rigidly hierarchical university systems where promotion must be granted by one's seniors.

The evidence is overwhelming, however, that such immobility is the exception, not the rule.

Source: Bradley Schiller (American University School of Public Affairs), 'Who Are the Rich?', *Washington Times*, 2 November 2000.

DO SMALL CLASSES INFLUENCE ACADEMIC ACHIEVEMENT?

From the attention given this subject by politicians, it would be reasonable to assume that class size has been shown to be essential to good academic outcomes. But this report, using data from the 1998 US National Assessment of Educational Progress reading examination to analyse the effect of class size on academic achievement, concludes that class size has little or no effect on academic achievement. It is quite likely, in fact, that class size as a variable pales in comparison with the effects of many factors not included in the NAEP data, such as teacher quality and teaching methods. In the words of Irwin Kurz, principal of Brooklyn's highly successful P.S. 161, which serves poor children and has an average class size of 35, it is '[b]etter to have one good teacher, than two crummy teachers any day.'

Source: <http://www.heritage.org/library/cda/cda00-07.html>

ECONOMICS OF HAPPINESS

While incomes, material possessions and living standards have all been on the rise in the United States, happiness has been declining in recent years.

A General Social Survey of the United States shows that, in the early 1970s, 34 per cent of those interviewed described themselves as 'very happy'. Yet by the late 1990s, the figure had shrunk to 30 per cent. A recent study analysed social and economic trends and found that this trend is not true across the board. Some groups are happier than others.

The study found:

- The happiness of American men has grown over the past three decades, while American women's happiness has decreased, despite improved economic and social relations.
 - Blacks are generally less happy than whites, but the gap between the two is closing as whites' happiness is decreasing while blacks' happiness is increasing.
 - Higher income increases happiness.
- It also calculated the economic worth of some unhappy events:
- The lack of a separation or divorce, the single greatest depressant, were calculated to be worth \$100,000 a year.
 - The lack of unemployment was calculated to be worth \$60,000 a year.

The study found that happiness is U-shaped over the life cycle and seems to bottom out at age 40. This suggests that this latest low happiness rating may be related to the disproportionate number of Baby Boomers who are now near the bottom of the happiness curve.

Source: David G. Blanchflower and Andrew J. Oswald, *Well-Being over Time in Britain and the USA*, Working Paper 7487, January 2000, National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, Mass. 02138.

For NBER text: <http://www.nber.org/digest/aug00/w7487.html>

Letter on America

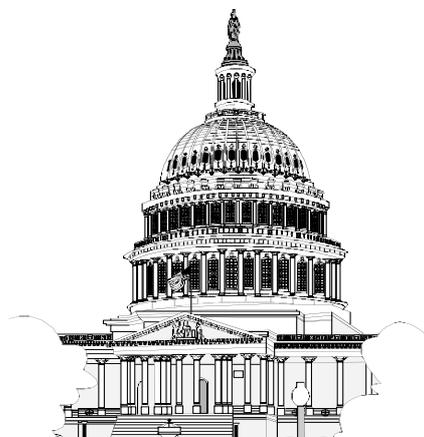
NIGEL ASHFORD

Retain the Electoral College

The bizarre sequence of events that led to the delay in pronouncing who had been elected the next President of the United States has led to vociferous demands for reform. They have become focused on the abolition of the Electoral College and its replacement by direct election. This reflects concern that a President could be elected by a majority in the Electoral College when another candidate received a plurality in the popular vote. While changes are required, this constitutional reform reflects a particular conception of democracy which the Founders rejected, and today should be resisted.

What is the Electoral College? Under Article II of the Constitution, each State is allocated a number of Electors or Electoral College Votes (ECV), based on congressional representation, plus three votes from Washington DC. The number of votes per State varies from as high as 54 for California to as low as three for Alaska. In 2000 there were 538 ECV in total, requiring 270 to win. With the exceptions of Maine and Nebraska, the candidate with the most votes in that State is allocated all its ECV. The Electors then meet in the State capitals and formally elect the President. If there is no majority, the President is chosen by the House of Representatives.

The reformers protest that it is wrong and 'undemocratic' that the candidate with the most votes, a plurality, was not elected. Gore received about 200,000 more votes than Bush. A similar event occurred in 1888 when Grover Cleveland won 90,000 more votes than his opponent Benjamin Harrison but lost in the



Electoral College by 233 ECV to 168. The case for the direct election of the presidency is based on the idea of democracy as unfettered plebiscitary, majoritarianism. According to this view, democracy is simply about the wishes of a bare majority (or even a mere plurality). Power belongs to 50 per cent plus one.

The founders of the US Constitution, however, did not share this idea. They were concerned that majoritarianism ignored minorities. Democracy is not simply about reflecting the desires of the majority, but about considering the rights and interests of all. As Alexander Hamilton noted, 'Give all power to the many, they will oppress the few. Give all power to the few, they will oppress the many'. The wise French commentator on democracy in America, Alexis de Tocqueville, described the danger of 'the tyranny of the majority', as did Friedrich Hayek in our own time. The founders thus created a system of checks and balances, including the separation of powers, the sharing of powers between different branches, federalism, a constitution of enumerated powers and a bill of rights.

The Electoral College was one feature of this elaborate structure of checks, designed to protect the interests of the small States. The fear was

that candidates would seek votes in States with large populations and ignore those with small ones. The College encourages them to pursue the ECV in even the smallest States such as Vermont because they can contribute to their election victory. Bush made his appeal across the country as revealed in his success in winning 50 per cent more States than Gore. It is demonstrated in the electoral map of the USA which shows the great swathes of territory supporting Bush. Gore concentrated his strategy on appealing to a few big States such as California. For this he was punished.

The last time the popular vote was not reflected in the ECV, in 1888, was because Cleveland had conducted a sectional and divisive campaign which gave him big majorities in the South but alienated the Northeast and Midwest. The Electoral College encourages candidates to reach out and campaign across the whole length and breadth of America. For this reason it should be retained.

Some reforms may be desirable. It is not necessary to elect individuals to exercise the ECV. It could be done automatically. If individual Electors are retained, they should be obliged to exercise their vote for the candidate they have been selected to support, unless released by that candidate. Efforts could be made to speed up counting the votes through the use of modern technology.

Retain the Electoral College, or the USA will move even closer to an unlimited majoritarian democracy that would be abhorrent to the Founders and should be to every lover of liberty.

Dr Nigel Ashford is Senior Lecturer in Politics at Staffordshire University, England, and co-author of US Politics Today (Manchester University Press).

I P A

REVIEW

Book Review

The Real Story

Michael Warby reviews

The Origins of Multiculturalism in Australian Politics 1945-1975

by Mark Lopez

Melbourne University Press,
496 pages, \$43.95.

Some questions to test your understanding: which was the first major Australian political party to adopt multiculturalism as official policy? Who was the first Federal politician to refer to multiculturalism in Parliament? Who was the second? Which Federal Government was the first to make multiculturalism public policy? When did multiculturalism achieve the support of a majority of Australians?

The answers are: the Liberal Party, Malcolm Fraser when Liberal Immigration spokesman, Michael Mackellar his successor as Liberal Immigration spokesman, the Fraser Government and not before the mid-1990s.

These are some of the fascinating facts in Mark Lopez's masterful study of how multiculturalism came to be adopted as a basic principle of public policy in Australia. *The Origins of Multiculturalism in Australian Politics 1945-1975* is a wonderful case study of the public policy process in Australia—the real one, not the banally formal or the stupidly conspiratorial versions sometimes presented. To me, as an ex-public servant, former political activist and someone involved in advocacy work, Mark Lopez's presentation of the ins and outs of the process of the rise of multiculturalism all ring true.

Apart from careful diligence in the presentation of evidence and painstaking coverage of all the relevant material, the prime source of Mark

Lopez's achievement seems to be his use of interviews with all the key participants supported by careful examination of the documentary evidence. While Lopez never actually suggests anything of the sort, one does get the sense that many of the key participants were only too willing to talk about how clever they were.

What Lopez tells is a fascinating story, the story of how a small number of activists—of a variety of ethnic backgrounds, including Anglo-Celtic—sought to change public policy. They did so not by convincing the general public and using the pressures of mass electoral politics—as late as 1994, an opinion poll recorded 61 per cent disapproval for multicultural ideas (what one wit has called the demand that residents adapt to newcomers). What the activists did instead is follow classic techniques of elite and pressure-point politics. They wrote papers (many were academics), they formed committees and organizations, they got into advisory structures, they tried to determine the wording of official reports and speeches, they lobbied key politicians.

Ironically, much of this activity, particularly after the election of the Whitlam Government in December 1972, was directed at the ALP. Most of the multiculturalists came from New Left or other progressivist backgrounds and were much more comfortable with the ALP as the vehicle of political change than the Liberal Party—many were ALP members. They were so focused on the ALP—with some exceptions such as Professor Jerzy Zubrzycki—that they (and the media) completely missed the significance of Fraser's acceptance of multiculturalism when Liberal Immigration spokesman and incorporation of it into Liberal policy.

Conversely, multiculturalism was never the official policy of the

Whitlam Government. It had begun to seep into government documents and reports, and Al Grassby did give a speech entitled *A Multi-Cultural Society for the Future* in August 1973, but Grassby himself did not become a multiculturalist until after he ceased to be Immigration Minister. Nor did the Whitlam Government take the final step and adopt multiculturalism as policy, though events were moving in that direction.

Even though the final adoption of multiculturalism as official policy by the Fraser Government was in some ways serendipitous for the multiculturalists, their efforts in creating a pervasive multiculturalist presence in advisory and advocacy structures, and in developing the ideas of multiculturalism, meant that there was an entire structure of ideas and personnel able to support and extend the policy direction of the Fraser Government once it had adopted multiculturalism as policy.

There are a range of lessons from this wonderful case study. One is how narrowly based bipartisanship can be. Bipartisanship does not require that a majority in the ALP and Coalition support a policy direction: all it requires is that both spokespersons do and that they have at least the passive support of their party leadership. It is almost certain that multiculturalism would not have survived a serious debate in either the Labor Caucus or the Coalition Party room. That Fraser (and then Mackellar) were explicitly in favour, and Grassby and other Whitlam Ministers implicitly so, was enough to stop it being destroyed by political controversy. In that sense, Australian public policy processes can be much more closed than, for example, American ones where primary elections and the looseness of party affiliation provide for a much more disparate—and disputed—public policy market which

forces politicians to play much closer heed to public opinion and makes politics much more a process of continual public persuasion.

Another lovely little nugget from the book is how the tactic of accusing critics and opponents of racism was established almost before multiculturalism itself as a term was. Then and since, multiculturalism has often provided examples of what might be called the motivational fallacy. In the case of multiculturalism, the fallacy works as follows: I advocate multiculturalism as a way of combating racism and prejudice, therefore, if you criticize multiculturalism you are guilty of racism and/or harbouring prejudice. This has a triple benefit as a mode of argument. It delegitimizes critics and criticism, it elevates the mode of action or claim being defended and it establishes or reinforces that action or claim as a moral asset for its proponents.

Lopez shows how tarring critics of multiculturalism as racist was helped by Al Grassby having been subjected to a nasty campaign by racist splinter groups prior to losing his rural New South Wales seat in 1974 as payback for his abolition of the lingering remnants of the White Australia policy. That racists hate multiculturalism provides and provided guilt by association for other critics.

One of the more fascinating themes in the book is how multiculturalism was opposed, in the end unsuccessfully, by public servants in the Immigration Department. Most of them adhered to assimilationist or integrationist ideas and had to be worked around by the multiculturalists. That Whitlam decided to abolish the Department after the 1974 elections was both a help and a hindrance to the multiculturalists. On one hand, it distracted and dispersed the assimilationist and integrationist public servants around several departments, though still in specific branches. On the other, it disrupted the advisory structures that multiculturalists had successfully infiltrated. On balance, it was probably a help to

the multiculturalist cause by dispersing concentrated bureaucratic opposition and encouraging the building of links with other departments and Ministers.

Lopez identifies four different streams in multiculturalism (pages 447–8). The dominant stream, *cultural pluralism* seeks government recognition and support for the preservation and development of migrant/ethnic groups and cultures. *Welfare multiculturalism* seeks culturally and ethnically pluralistic welfare delivery services because migrant/ethnic groups are seen as vulnerable and afflicted by a wide range of welfare problems. *Ethnic structural pluralism* sees

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migrant/ethnic identity as being threatened by socio-economic inequalities and institutional practices and seeks government support to preserve ethnic identity. *Ethnic rights multiculturalism* sees migrant/ethnic populations as predominantly working class and the central issues as being denial of rights—economic, social, cultural, political—and either seeks creation of ethnic/migrant pressure groups or migrant mobilization through trade unions.

Even though the multiculturalists had divergent views, they still functioned as a series of interlocking net-

works that led to the adoption of multiculturalism as public policy without the support of, indeed against, public opinion. They seem to have had a range of motivations, often rooted in an alienation from mainstream Australia. People confronting such alienation always face a choice: do you persuade the general public to adjust society or do you enforce your views to transform from the centre? The multiculturalists essentially used a vanguard approach, capturing public policy and using the platform of government to establish multiculturalism as a *fait accompli*. While some recent opinion polls do suggest that multiculturalism has achieved majority support in recent years, Lopez casts doubt on this, feeling the wording of many of the polling questions is somewhat problematic.

That public opinion was unambiguously not in favour when multiculturalism was being adopted led to some dubious practices by the multiculturalists: Lopez brings out some of the danger of ‘action research’ in misdiagnosing issues and obstructing dealing with genuine concerns.

Lopez also brings out how the multiculturalists were able to use the media preference for a convenient voice to represent assumed opinion to pretend to have more support than they actually did. Thus the Ethnic Communities Council of Victoria was established by the multiculturalists to provide a platform to push multiculturalism on a presumption that the Council spoke for migrant/ethnic opinion. In reality, it was a classic ‘top down’ organization with little or no genuine connection to ordinary migrants.

There is far more to be learned in this excellent book than the issues I have touched upon. Anyone interested in Australian politics and public policy, and particularly anyone interested in the achievements and perils of policy advocacy, should read this book.

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I P A

REVIEW

DECEMBER 2000