# Inside this Issue

**Volume 49 • Number 4 • July 1997**

## ARTICLES & REGULAR FEATURES

<table>
<thead>
<tr>
<th>Page</th>
<th>Title</th>
<th>Author(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Editorial</td>
<td>Tony Rutherford</td>
</tr>
<tr>
<td>3</td>
<td>From the Executive Director</td>
<td>Mike Nahan</td>
</tr>
<tr>
<td>4</td>
<td>Muddying the Waters...</td>
<td>Peter Purcell</td>
</tr>
<tr>
<td>6</td>
<td>The Pyrrhonist</td>
<td>Brian Tucker</td>
</tr>
<tr>
<td>8</td>
<td>Surfing the Net: A Productive Timezone</td>
<td>Andrew McIntyre</td>
</tr>
<tr>
<td>10</td>
<td>Bonus of Full Employment for United States</td>
<td>David Hale</td>
</tr>
<tr>
<td>11</td>
<td>Don't Mention the Waterfront</td>
<td>Robert Skelfington</td>
</tr>
<tr>
<td>13</td>
<td>Economic Freedom and the Wealth of Nations</td>
<td>Mike Nahan</td>
</tr>
<tr>
<td>15</td>
<td>Economic Freedom of the World: International Rankings</td>
<td>Padraic McGuinness</td>
</tr>
<tr>
<td>16</td>
<td>The Links between Economic Freedom and Social Cohesion</td>
<td>Winton Bates</td>
</tr>
</tbody>
</table>

### SPECIAL FEATURES

**Focus on Economic Freedom**

<table>
<thead>
<tr>
<th>Page</th>
<th>Title</th>
<th>Author(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>13</td>
<td>Economic Freedom and the Wealth of Nations</td>
<td>Mike Nahan</td>
</tr>
<tr>
<td>15</td>
<td>Economic Freedom of the World: International Rankings</td>
<td>Padraic McGuinness</td>
</tr>
</tbody>
</table>

### BOOK REVIEWS

<table>
<thead>
<tr>
<th>Page</th>
<th>Title</th>
<th>Author(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>29</td>
<td>More Equal Than Others</td>
<td>Roger Kimball</td>
</tr>
<tr>
<td>29</td>
<td>Mad Feminism</td>
<td>Bruce Frohnen</td>
</tr>
</tbody>
</table>

---

**REVIEW**

Editor: Tony Rutherford. Publisher & Executive Director: Mike Nahan. Production Manager: Chris Ulyatt.

*Editorial and Production Office*: 2nd Floor, 46 King's Park Road, West Perth WA 6005.

Phone: (08) 9321 1420. Fax: (08) 9321 1479. Email: ipa@inta.com.au

Designed by: Colin Norris, Kingdom Artruom. Printed by: Print Hotline, 47 Milligan Street, Perth, WA 6000.

Published by: The Institute of Public Affairs Ltd (Incorporated in the ACT) ACN 008 627 727.

Cover Photographs: Bureau of Meteorology imagery from the Japan Meteorological Agency geostationary satellite.

Unsolicited manuscripts welcomed. However, potential contributors are advised to discuss proposals for articles with the Editor.

Views expressed in this publication are those of the authors and do not necessarily reflect the views of the IPA.

Reproduction: The IPA welcomes reproduction of material from the Review, but for copyright reasons the Editor's permission must first be sought.
From the Editor

S Roger Kerr points out in his article later in this issue, economic reforms pass through three stages: resistance, grudging acknowledgement and final acceptance. That is, I think, true of individual economic reforms; but is it true of economic reform as a general phenomenon?

PERCEPTIONS OF ECONOMIC REFORM

The evidence from Australia is mixed and at best anecdotal. 'Reform fatigue' is an ailment commonly diagnosed in voters and politicians alike. The lower-middle-class swing to John Howard in the last election is—rightly or wrongly—now commonly ascribed to just that sort of fatigue.

Many factors play a role in this. Simple fear of losing one's job is a powerful one—even though, statistically speaking, the fear is more significant than the reality. In post-Thatcher Britain, for instance, despite all the reform, job tenure tended to be more, not less, secure than before.

Simple statistical fallacy is important here: with the help of the media, we register the loss of 5,000 jobs if a single large enterprise closes, but not the creation of 5,000 individual jobs in thousands of individual enterprises in the rest of the economy. A residual sense of economic nationalism is also an important factor: thus the very real gains from the progressive integration of our economy into the global economy are accompanied by a great deal of out-and-out chauvinism mingled with curiously defeatist conspiracy theory.

A good deal of anxiety is focused on life after work: a secure and relatively early retirement is a highly valued goal in most lives, and the knowledge that, for whatever reason, that may soon be a thing of the past is a powerful unsettling agent. Indeed, the continued existence of the welfare state as we know it is clearly thought to be in doubt. And, of course, there is the simple desire for a quiet life to be taken into account.

Whatever the reasons, economic reform in the broad sense has largely had a bad press in Australia. Each successive reform comes with a cloud of potential bad news—loss of income, loss of benefit, loss of job security, the simple necessity of having to compete where competition never prevailed—which hangs around even after the reform in question is completed and accepted.

Hypothetical gains—X per cent increase in exports or in GDP, lower inflation, better allocation of scarce resources, better investment patterns, even lower levels of taxation—are rarely of a kind that most people can perceive. This is, after all, what we would expect from public choice theory: the political process traditionally yields significant gains to the concentrated few, while the dispersed many will reap only imperceptible gains.

It has to be observed, too, that much of the actual pain of reform in Australia has been borne by members of former elites—especially bureaucrats and formerly powerful unions—who still tend to have ready access to the media.

All of this begins to explain our focus in this issue of the IPA Review: economic freedom. Our three authors—Padraic McGuinness, Winton Bates and Mike Nahan—concentrate sharply on three central issues: on how economic freedom and the classical freedom of the individual are intimately related; on how economic freedom makes for a better society; and on the relationship between economic freedom and prosperity. All three make an irrefutable case for freedom.

This is, after all, the positive side of reform, the side that gets lost in the doom-laden discussion accompanying each step forward in the micro-economic reform agenda which now characterises so many polities. In the long run, indeed, and tritely enough, the silver lining turns out to be considerably bigger and more important and durable than the cloud.

A POLICY-FREE ZONE?

With that in mind, we can tentatively propose a rough-and-ready law of reform: To the extent that reforming politicians believe that economic freedom is an important good in itself, then the task of reform will be both more easily and more thoroughly carried out. With Ronald Reagan, Margaret Thatcher and Roger Douglas as star witnesses for the proposition, we can nearly rest our case for the validity of the dictum.

The proposition may, in any case, enable us to try putting our finger on just what is wrong with the Howard Government. Although some individual ministers—David Kemp, McLachlan, Newman and Vanstone, for instance—are clearly doing their best to do the right thing (and deserve all support for that), they are in a minority, and their efforts suffer the more for that.

In the sense of having a compelling underlying mission, of making sure
that all policy initiatives point the right way, of believing, indeed, in just one or two good and very important things, the Howard Government gives the impression of being a policy-free zone.

All governments face acid tests from time to time, tests of resolve or courage or leadership. The Howard Government faced one of the really important tests last month with the decision on future protection for the passenger motor vehicle industry, and failed so completely as to provoke something like complete astonishment.

The serious press—notably the Financial Review, and Alan Wood in The Australian—treated the economic aspects of the decision as it deserved. There is, indeed, relatively little left to say. Others—notably Paul Kelly—have dealt with the implications for our trade and foreign policy. The economic arguments about protection are embarrassingly well-known, and need no repetition here. What one cannot forget, of course, is that all these arguments must have been well known to Cabinet, not least to John Howard himself, whose leadership on most aspects of economic reform was so indispensable to the Hawke and Keating governments while he was in opposition.

Two aspects of the decision, however, might still bear some comment, perhaps by way of two more impromptu dicta.

The first: Bad policy is bad politics. At times, the Howard Government seems to think that the operation of a policy-free zone is actually a good thing. The less it does in a determined policy sense, the better; for the less it does, the less it will antagonize the reform-fatigued battlers. But even battlers don't elect governments to sit on their hands. Given time, they are as acute as the most seasoned political columnist in perceiving lack of direction and want of leadership. The seasoned political columnists have now been lost, so too have most of the thinking end of the business community, and the State Premiers are mostly off-side. (The chattering classes, who do form opinions, were, of course, already lost.) There aren't many useful public supporters left.

And the second: Never give comfort to the enemy. In the most cynical sense, the car tariff decision simply lent comfort to the ALP, and lent strength to its own cynical populism. How much better it would have been to have left the ALP's populism exposed for what it is. But there are more serious things at stake here. The Howard Government has now twice given quite substantial comfort to Pauline Hanson and her tribe: first with the car decision, and secondly by promoting the dubious belief that immigration causes unemployment. In both arguments the only right and moral course of action was to tell the truth and to act accordingly. Once again, Hanson can assure her own true believers that she has flushed out the elites and forced them to admit the truth. That Howard should give in in this way merely shows his misreading of the relevant electoral calculus: it is he who has been weakened and she who is now the stronger.

Few mistakes in politics are absolutely fatal; even these can be recovered. But something has to fill the soulless and mindless vacuum at the heart of the Howard administration. A dose of economic freedom might help.

FREEDOM TO WORK?

Some of the ways in which economic freedom can be important appear in other articles in this issue.

Mike Nahan, for instance, in the article on the following page, points to the difficulty of distinguishing between the spread of economic freedom and the rise of economic 'globalization'. A precise instance of this can be found in his comments about taxation. While globalization will be a constraint on domestic tax policy, tending to produce lower levels of taxation, lower taxation itself, by returning resources to individuals, increases their freedom to make their own economic decisions. This is an aspect of the new Australian tax debate—so far dominated by the GST question—which must increase in importance.

And in Roger Kimball's penetrating essay-review on the subject of 'communitarianism' we find a convincing critique of the reaction of the elites to the apparent costs of growing freedom. US communitarianism is the ostensible subject, but his remarks could just as well have been directed at any of the illiberal forces in the Australian elites, from Eva Cox to B.A. Santamaria, including the Quadrant squad on the way.

Most importantly, however, we look at the state of the labour market in New Zealand and in the US. In those countries—and we could have included the United Kingdom as well—the labour market is now considerably less regulated (or more free) than in Australia. And despite various economic ups and downs, the difference tells. It seems clear to most intelligent observers that the official Australian policy of relying on economic growth to solve the unemployment problem is futile. This is a subject to which we will be returning in future issues.

Curiously, Mr Howard seems happy to accept that the level of unemployment in Australia is indeed the government's responsibility. This—as Thatcher understood very clearly—is nobility above and beyond the call of duty. He should quite simply sheet the blame to where it belongs: the Democrats and Greens in the Senate, who watered down what was already not very liberal IR legislation last year; legislation which, however, might have started to make a difference to our unemployment problem.

After all, it is not as if Mr Howard and his colleagues don't understand the arguments. He and Mr Reith understood them perfectly well ten years ago. But then, they also understood the arguments about industry protection ten years ago... Collective amnesia is a disturbing diagnosis, but it seems morally preferable to some of the other possibilities.
Three Cheers for Globalization

Globalization is proving to be one of the great liberating forces in human history. It has already contributed greatly to the unprecedented improvement in wealth and human well-being experienced since World War II. It was a key ingredient in the 'Asian Miracle', which liberated more than a billion people from abject poverty. And it is one of the main reasons for the world's current rosy economic outlook—the most positive outlook the world has faced since the 1960s.

Its greatest contribution, however, may well prove to be the taming of Leviathan. The rapid integration of the world's economies together with advances in electronic commerce are beginning seriously to limit the ability of government to tax and spend without restraint. We have seen this process under way for decades, but now it is about to be a defining force—and a force for the betterment of mankind.

Since the war, governments of the so-called industrialized countries have more than doubled the share of economic activity undertaken by their public sector. In 1950, the government sector in the OECD countries accounted for about 21 per cent of GDP; by 1995, this had blown out to 47 per cent. Governments have during the last decade or so increasingly privatized businesses and contracted-out services. But despite these efficiency measures, the public sector has continued to expand in most OECD countries.

Although the optimum size of government is not known with any precision, there is enough research to say with confidence that the public sector has in most developed nations gone beyond the point of positive return. Indeed, research recently undertaken at the World Bank indicates that the optimal size of government is around 30 per cent of GDP, which means that the public sector in the OECD is 50 per cent larger than it should be.

Even though Australia has, through the privatization of government enterprises, reduced the size of its total public sector over the last decade, the budget sector—the tax-dependent part of the public sector—has trended steadily upward, and now by itself accounts for 37 per cent of GDP. This, although small by European standards, is still too large.

Despite the already excessive size of government, many countries, including Australia, face growing pressure for even bigger government.

First, the baby boomers are finally beginning to reflect on their own mortality and retirement and are doing so with trepidation. They have characteristically saved little to date and face a mounting health and income-security bill. They confront two choices: they can start rapidly saving for themselves (and work longer), or get taxpayers to foot the bill. Coming of age in the welfare state has conditioned many to look to government first.

Second, unemployment is breeding an underclass increasingly dependent on welfare and unable to take advantage of opportunities. Australia—once the 'lucky country'—with a third of children in families largely dependent on welfare and around 25 per cent of youth unemployed, is probably no exception.

Big government, however, is the cause of, not the solution to, these problems. The solution lies with a substantial measure of economic freedom—smaller government, lower taxes, greater reliance on markets and individual choice.

The baby boomers may be flaky but they are rational. They do not save enough because it does not pay to. Taxes on savings and investment are simply too high in too many countries, and government has always been ready and willing to take on all of life's risks.

This is particularly the case in Australia, where investors face among the highest tax rates in the world (see Figure 1). For example, a person who pays income tax at the average rate (35.4 per cent) confronts an effective marginal tax rate on investment income of 52 per cent. A person on the top income tax rate faces a crippling effective tax rate on investment income of around 85 per cent. These tax rates are the second highest in the OECD and about two-and-a-half times the rates imposed in Asia.

The solution to low saving lies with lower taxes and a less comprehensive social safety net. This is exactly what globalization will force on governments—continued on page 32...
Muddying the Waters...
(Less than 'Good Oil' from The West Australian)

PETER PURCELL

Most of us see environmental matters through the window of the media—but are they always trustworthy?

Peter Purcell looks at a typical example

The public’s ‘right to know’ is a prominent item in the journalists’ credo, and deservedly so. When a journalist provides a clear and concise statement of all the relevant facts, the reader is able to understand the world better, and to make more informed decisions about community and national matters.

The converse, of course, is that the journalist who does not report all the facts, or actually misrepresents them, can do a considerable public disservice. That has been the case recently with The West Australian on several stories about the environmental significance of oil exploration activity in that State’s northwest.

A cartoon in the 7 February 1997 West Australian showed an offshore drilling rig, with a whale-shark and several people impaled on the drilling pipe, their blood flowing into the water and gushing out of the top of the well; WA Environment Minister Cheryl Edwardes and drillers on the rig floor are being splattered by the blood, and the Minister asks, confused, ‘Red oil?’

Such a graphic and gory image certainly gave the public a very clear editorial comment on the dangers of offshore oil exploration. The public, in turn, might well expect there to be good and factual reasons for such an emotionally-charged message.

It is alarming, therefore, to realise that the oil-well being accused of murder, albeit metaphorically, wasn’t even offshore: it was onshore Cape Range, near Exmouth in northern Western Australia, and over a kilometre from the ocean (see map on the next page).

The related front page story said that the Minister had ‘ridden roughshod over conservationists and opened the way for drilling on Cape Range’.

What the Minister had done was accept the advice of the regulatory authority, the Environmental Protection Act Appeals Convener, who had, after due review, rejected the appeal against the project by the Conservation Council. Part of the reasoning was the fact that 40 oil-wells have been drilled previously on the Cape (see map), apparently without any significant damage to the environment, given the claims of the Cape’s ongoing high conservation values.

How does such a legitimate government process come to be categorised in the press as ‘riding roughshod’?

Otherwise, the article was reasonably balanced. The Minister came across as being very much off-balance, but that was of her own making; when contacted by the journalist, the Minister should have stood her ground and explained the reasons for the decision clearly and carefully. The announcement that she had changed her mind and decided that a formal environmental assessment of the proposed drilling was necessary, may not have been a spur-of-the-moment, panicked response, but that is how it looked and how it was reported internationally.

The message it sent to the public was that the Conservation Council had been correct in its opposition to the drilling. The Alston cartoon is another matter. Running such an inaccurate and misleading cartoon on the op-ed pages raises serious questions about editorial policy that need to be examined and answered.

On 5 March, the same West Australian editorial policy sponsored a cartoon showing dead dolphins floating near a drilling rig in Shark Bay, and a forest of oil-wells, all blowing out oil, in the Pinnacles national park, north of Perth.

The underlying issue on that occasion was the front-page report that the Court Government had given ‘the go-ahead for oil and gas exploration in World Heritage-listed areas of pristine Shark Bay’. Green groups, the Federal opposition, the Democrats and even Federal Environment Minister Robert Hill were said to be furious that the permit had been granted in November 1996 ‘without public consultation’.

Cartoon reproduced with the kind permission of Dean Alston and The West Australian.
The fact is that the 1988 Shark Bay Region Plan, on which World Heritage listing for Shark Bay was based, explicitly acknowledges petroleum exploration and production interests and notes that exploration may continue there. The subsequent Plan of Management for the Shark Bay Marine Park, developed by the State Government with extensive public consultation, specifically provides for the possibility of future exploration and production. The WA Minister's granting of Exploration Permit 406 in November 1996 over an area between Bernier Island and the coast, including part of the Shark Bay Marine Park, was entirely consistent with the World Heritage plans for the area.

The fact that the media did not pick up the story until Democrat Senator Meg Lees 'exposed' the matter during question time in March 1997 led some journalists to imply there had been a conspiracy of silence between Government and the companies. What there had been, in fact, was a lack of attention by journalists to publicly-available industry maps, journals and newsletters, which had been reporting the matter throughout much of 1996.

Notwithstanding that, the 5 March 1997 article by West Australian journalists, Tony Barras and Geraldine Capp, was reasonably fair, given the material they had to work with—a mix of misjudgement and misinformation from the political leadership on environmental matters, including both the State and Federal ministers.

Opposition environment spokeswoman Carmen Lawrence took the conspiracy route and accused the WA Government of being 'deceptive and sneaky'. Democrat Senator Meg Lees bemoaned the fact that 'a World Heritage area on our coast is opened up to oil and gas exploration'—which means she doesn't know, or doesn't want the public to know, that the area has been open for exploration for decades. There has been little work because the exploration in the 1960s suggested that the area had low prospectivity.

The flurry of comment from Federal Environment Minister Robert Hill, particularly the references to possible Federal intervention, would also have done little to reassure the public that there was no need for undue concern. Quite the opposite, in fact: it suggested a fundamental conflict between petroleum exploration and conservation values, particularly of the World Heritage category.

It might have been more useful for the Federal Minister to remind the public that it was in recognition of the excellent environmental record of the petroleum exploration and production industry in Australia and world-wide, that the previous Federal Government signed Agenda 21 at the 1992 United Nations Conference on the Environment and Development in Rio de Janeiro. Among other things, Agenda 21 states that 'offshore oil exploration and production activities generally account for a very small portion of marine pollution'.

WA Minister Edwardes played a more useful role on this occasion, pointing out that the permit grants the companies only the right to explore, and that formal WA environmental impact assessment procedures will be required at each stage of exploration to ensure that the environment is properly protected. Her comments appear to have been fairly reported.

What remains unclear is the intent of The West Australian in its editorial policy. The headline, the first paragraph and a vitriolic cartoon communicate a very sharp anti-petroleum message that will get the attention of far more people than the article as a whole, regardless of efforts by the journalists to be balanced in their reporting.

Is it a coincidence that The West Australian ran an article on 10 March, announcing that the Australian Conservation Foundation and the Wilderness Society were 'so appalled at the State government's environmental record that they have put WA at the top of their agendas and are planning major campaigns here this year'? And that both have mining (including petroleum exploration) in national parks as a main issue?

Is The West Australian's editorial policy to promote the agendas of these groups? That is their prerogative, of course, but they have a duty of truth to the public to make that clear.

Whatever the motivation, The West Australian is not presenting a balanced view of the significance of petroleum exploration and development activity in WA, be it the major economic impact or the minimal and carefully-managed environmental impact.

The 1995-96 Annual Report by the Australian Maritime Safety Authority on the National Plan to Combat Pollution of the Sea by Oil endorsed the estimate by the US Academy of Science that only 2 per cent of oil that enters the ocean has any connection with the petroleum exploration and production industry, whereas 50 per cent comes from urban run-off. Of the 349 reports of oil discharged into Australian waters during the year, 74 per cent were in ports; most other sightings were associated with ships, with fishing boats being the main single source of oil-discharge sightings. None was from offshore oil and gas operations.
These figures suggest that the main threat from oil pollution to the EP 406 area of Shark Bay would come from the town of Carnarvon, which is within it, and from the extensive use of that port by boats, including a large fishing fleet. There is also the fact that oil tankers pass close to Shark Bay regularly, and also to Ningaloo Reef. Tankers actually enter Exmouth Gulf several times a year to deliver fuel to the Exmouth military base. None of this seems to attract alarmed editorial comment, despite the fact that spillage from tankers during routine operations is a large component of the vessel-related pollution.

(This shouldn’t be a surprise, really: the considerable alarm in 1970 when the oil tanker Oceanic Grandeur ran aground in Torres Strait led ultimately to the establishment of the Great Barrier Reef Marine Park, in which oil exploration was banned, but through and near which oil tankers have continued to sail ever since! Over 200 vessels per year bring fuel supplies to Brisbane and other cities. A study conducted several years ago reported one minor spill per week in the park, mainly from fishing boats, with a larger spill every three months, from operational discharge by commercial vessels.)

Misleading statements by pro-environment people, be they journalists or politicians, can have a major influence on community opinion, and the political and economic decisions which those opinions dictate through the political process. The irony is that, however well-intentioned the person, if they promote policies and regulations based on fallacies rather than facts, then their actions are unlikely to be in the best interests of the ecosystem they are trying to protect.

Peter Purcell is a Perth-based geological consultant who has written widely on resource developments and aboriginal and environmental matters.

The Pyrrhonist

The Incorrigible ABC

I confess to being a regular listener to ABC radio and television, especially news and current affairs programmes. Its commercial counterparts are difficult to take: I find the advertisements inane and intrusive, and the intellectual content much inferior.

Bias is said to be in the eye of the beholder. Nevertheless my enjoyment of the ABC has been spoiled by what appears to me to be a left-wing bias. This perception is shared by many. Despite protestations by those who disagree, it is difficult to find anyone who asserts that it shows any right-wing prejudice. The bias is evident in several aspects of programming: selection of topics, selection of interviewees and selection of material.

There are obvious difficulties in justifying this perception. A carefully constructed and comprehensive survey would be required, and even then the classifications can only be subjective. An approach to some of the broad policy considerations was made by Keith Mackrell in ‘Redefining the ABC’ in the IPA Review, Vol. 49/2, 1996, where he proposes both a requirement fairly to reflect the contesting views and a re-examination of corporate sponsorship.

He argues that to ensure an honest reflection of controversies there needs to be reference to this in a new ABC Charter and a connection between this charter and the code of practice. He cites some examples which extend to autumn 1996. Little has changed in the following twelve months despite the spotlight focused on the ABC: indeed the attitude of some staffers is petulant and resembles defiant intransigence.

A few ABC performers do not pretend to be other than left-wing advocates. Phillip Adams works hard at being the paramount example, whereas others are more devious in attempting to persuade listeners to their perspective. His argument, that left-wing ABC bias is justified as a response to ‘the overwhelming bombast and bigotry that’s pouring out of commercial radio’, might be expected from an advertising man who regards the air waves as a polemical battleground: he who shouts loudest wins. He seems to think it entirely appropriate that government should allocate funding in support of propagandists who are working to subvert that government. Others in the same mould are somewhat less obvious in attempting to persuade listeners and viewers to their political perspectives. Of course there are many broadcasters who do appear to strive for objectivity and balance notwithstanding their personal opinions but—in a spirit of corporate solidarity which seems to exist quite independently of the Board—they are naturally reluctant to indict the ‘true believers’ among their colleagues.

Characteristically the ABC seems to adopt causes and, by constant repetition, to promote selectively one side of a controversy. The aboriginal predicament in Australia is one obvious example. The frequency with which exposure is given to indigenous activists and their sympathisers, rarely critical, far exceeds time allocated to issues concerning any other ethnic group. It is somewhat more than might be expected to be devoted to less than 2 per cent of Australia’s population.

Another example is the pejorative treatment given to those described as ‘economic rationalists’, characterised as callous and hard-hearted: only one side of politics cares about people, the other is entirely motivated by self-interest. A third example is the demonising of Pauline Hanson. Whatever one thinks of her, it is difficult not to allocate some blame to the ABC in causing the erroneous perception in South-East Asia of rampant racism in Australia. What other national public broadcaster so eagerly solicits adverse opinions of its country from neighbouring nations...
and cries crocodile tears at the way its own misrepresentations are believed! But perhaps the most unfair and subversive trait is the disparaging treatment of Prime Minister John Howard and the eager way some ABC reporters seek any adverse comment about him. There is no acknowledgement that he, more than anyone else, earnestly seeks fair solutions to some of Australia’s most intractable problems.

There are other ways of putting a spin on issues; ways which are difficult for listeners to detect. I record below one such example in which I was personally involved; it does nothing to ameliorate my perceptions of ABC attempts to undermine the considered policies of our current elected government.

On 17 April, I was telephoned at home by Justin Murphy, an ABC Television reporter. He was preparing a short piece on 7.30 Report.

After soliciting my views on global warming in general and Greenhouse gas emission reduction policy in particular, we arranged that he should visit my home the following day with a camera crew to record an interview. Readers of the IPA Review may be familiar with these views—outlined for example in ‘The Greenhouse Panic’, IPA Review Vol. 48/1, 1995. Briefly, they are that likely climate change has been exaggerated and that emission reduction sufficient to affect significantly either global gas concentrations or possible climate change are unlikely to be achievable for several centuries—until world population and associated expectations of developing countries have stabilised. In fact I argue that we have more to fear from the consequences of draconian policy responses to environmental alarmism than from climate change itself.

In reply to a direct question from Murphy, I commended the policy of the present Government: its refusal to accept internationally-proposed unrealistic reduction targets or to compromise Australia’s economy in a vain attempt to achieve the impossible, and its intention to continue to foster research aimed at reducing uncertainties on all fronts. What was eventually broadcast on The 7.30 Report on Thursday 25 April was quite different. A severe selection of my interview had been made and a few short segments, taken out of context, had been tied in with documentary evidence, which was used to arrive at the opposite conclusion. The 7.30 Report is an excellent example of biased reporting. It is one which the ABC, itself vulnerable; it does nothing to ameliorate my perceptions of ABC attempts to undermine the considered policies of our current elected government.

In a lively and informative monograph Normal Services won’t be Resumed (Allen and Unwin, 1996), the radio producer and presenter Robyn Williams laments the reduction in funding already experienced by the ABC and by similar agencies overseas. He anticipates future funding threats but also considers a variety of issues that need to be faced by the ABC, including management, regional broadcasting, specialist broadcasting, music, technical reforms etc. Yet nowhere does he confront the widespread perceptions of political bias. He is obviously aware of them from comments like ‘the well of spite’, ‘plenty of ultra-dries who have been trying to bag the ABC’, ‘splenetic editorials and Tory swipes’ and even ‘the policy of punishment’. Concerning the latter, it would be interesting to know what Robyn Williams feels the ABC might be being ‘punished’ for, if not political bias?

He quotes David Attenborough’s testimony that for the good of the nation, public broadcasting should be an intellectual force. It is interesting to set this alongside the opinion of the conservative commentator Robert Manne, stated in ‘The Public Intellectual’ (ABC Radio National, 27 April 1997), that the basis of intellectualism is the ability to debate all sides of a contentious issue in an informed and rational way. But too often ABC reporters and commentators seem to regard their role as being to provide a platform for those who protest against the proposals or policies of the current elected government; and not to air the arguments for, as well as against, these policies. This is not to say that balanced discussion of opposing views is never featured; the first examples to spring to mind are, on 3LO radio, a fascinating discussion between Terry Lane, John Faine and Bob Santamaria; and, on television, the enjoyable and informative non-political style of the Victorian ‘Stateline’ series, ably compered by Ian Henderson. It may be no coincidence that both these examples are drawn from State rather than national programmes.

I earlier referred to the argument of Phillip Adams that the ABC should be supported precisely because it is politically biased. The opposite, argued by the disenchanted, is that the ABC should be dissolved for the very same reason. My view accords with neither. Despite being irritated by examples of biased reporting, one-eyed argument and stacked panels, I remain a dedicated ABC listener. But it is disappointing that a significant portion of reports and commentaries are of a partisan nature; it reduces programme credibility on all politically relevant issues, when many may have been quite fairly treated.

A statement of intent from the ABC Board to persuade stuffers not to use the service to advance their own political perceptions might just turn the eroding tide in its favour. For, as infuriating as some of the personalities may be, and as close to the wind of subversion as they may sail, there can be little doubt that the main source of intellectual debate for many Australians would be severely affected if there were to be further depletion of ABC resources. As part of the Charter and statutory changes suggested by Keith Mackrell, perhaps there could be a new ‘vision’: fair reporting for fair resourcing.

Dr Brian Tucker is a Senior Fellow of the IPA and Director of its Environment Unit

IPA

Realism, Human Existence and the Environment

This monograph, based on an address by IPA Senior Fellow Dr Brian Tucker at the 1997 World Meteorological Day, argues that current global strategies to reduce greenhouse emissions are probably unnecessary, draconian, and certainly act as a counter to economic development. He argues that the most realistic policy would be one of planned adaptation, which fits with the more scientifically-based approach of assessing the policy change, not the current contradictory notion of sustainable development.
HE 1990s has been a time of extraordinary corporate restructuring and, not surprisingly, the dominant concerns of economic policymakers in most industrial countries have been job security and unemployment.

American policymakers, by contrast, confront a different challenge—how to sustain expansion in an economy which has achieved full employment. The US has been presented with unusual social opportunities as a result of the private sector's increasing need to employ the most marginal people in its society.

There is no precise definition of full employment, but there is little doubt that the US has the tightest labour market in the industrial world. The unemployment rate has dropped to 5.2 per cent nationwide, and is below 4 per cent in nearly half of all metropolitan regions. The level of labour force participation is more than 77.5 per cent compared with 69 per cent in Germany, 59 per cent in Italy and 74 per cent in Britain. Finally, the growth rate of the US labour force is projected to fall to between 1 per cent and 1.5 per cent in the next few years from between 2.5 per cent and 3 per cent in the 1970s.

The US has long had an outstanding performance in job creation compared with Europe. Since 1980, it has created more than 33 million jobs in a labour force which is now 134 million, while Europe has produced only 14 million new jobs in a labour force of 192 million. Since 1989, two-thirds of America's job growth has been concentrated in private-sector managerial and office support occupations. Nearly all Europe's job growth has been in the public sector.

European leaders have long tried to downplay US employment growth by attributing it to the country's tolerance for high inequality. But the US labour market is now so tight that wage growth is accelerating. Businesses are being forced to recruit workers from the most disadvantaged groups and incur the cost of training them.

In the post-war era, most unemployment in the US has been transitional. About 20 million workers change jobs every year and 70 per cent of those currently unemployed have been without a job for less than 15 weeks.

Because of structural economic changes and long-term economic growth—more than 26 weeks—has increased from between 4 per cent and 5 per cent in the late 1960s to 15 per cent in the late 1970s. Such a ratio of long-term unemployment is half that of Europe, but is unusually high for a US business cycle in which the unemployment rate has fallen so sharply.

The unemployment rate is above 10 per cent for blacks and 8 per cent for Hispanics, compared with 4.6 per cent for whites. Tight labour markets could do more to correct problems with structural unemployment and racial inequality than any phenomena since the economic boom of the Vietnam war era. Tight labour markets will also improve the job prospects of the 2 million so-called welfare mothers, who now have to seek employment because of last year's federal welfare reforms. If the new welfare law had been enacted in the Reagan years, it would probably have been recognized as cruel, but in the current labour market it is greatly shrinking the welfare rolls.

American companies would not usually be enthusiastic about hiring people from the welfare rolls. Their low skills are a baffle to productivity, they require a heavy investment in training and the US does not have a tradition of apprenticeships. The government spends far less on worker training programmes than other industrial countries.

But, given the current tightness of the labour market, companies have little choice but to hire people they would once have shunned. In Chicago, Milwaukee and other mid-western cities, businesses are being forced to recruit untrained workers, and these workers are being forced to recruit untrained workers, with the help of inner-city high school principals and church pastors, because there is no one else to hire.

It is difficult to predict how long the US will benefit from this benign combination of full employment and low inflation. Politicians have not yet started to acknowledge the need for new policies to boost labour force growth, such as reducing high marginal income tax rates, increasing immigration or refocusing federal training programmes on the people with serious work impediments, such as drug addiction.

The Federal Reserve has started raising interest rates because Mr Alan Greenspan, its chairman, fears that low unemployment will erode the labour insecurity that helped to restrain wage growth during the mid-1990s. But corporations have such limited ability to raise prices that even labour-intensive companies, such as McDonald's, have recently been forced to cut prices to protect their market share.

It will be difficult for the world to accept that America's tough-and-ready approach to the marketplace could produce more benign social outcomes than the welfare states of Canada and Europe. America's large prison population and its 20 per cent poverty rate for children are symptoms of the extraordinary tolerance for inequality developed in response to racial and cultural diversity.

America has learned to live with inequality in return for labour market flexibility and employment growth. Europe has failed to create jobs because its tax and regulatory policies boost labour costs and make it too expensive for companies to restructure that they are reluctant to hire new workers. European governments have protected middle-aged people with jobs at the expense of those seeking employment, especially the young and immigrants.

Because of their inability to accept the policy implications of American employment success, European leaders often say that the great US triumph of the 1990s is Mr Bill Gates and the high-technology revolution. They have not recognized or acknowledged the increasing need of America's private sector to offer jobs to everyone irrespective of nationality, race, religion, sex, age, education or trade union status. But America's tight labour market is now producing visible evidence of rising real wages and job opportunities for most of its most disadvantaged people.

When this development is well publicized, even French politicians will have to admit that full employment is a better solution to the problems of inequality and poverty than restrictive labour laws, generous welfare benefits and large budget deficits.
Don’t Mention the Waterfront

ROBERT SKEFFINGTON

Shipping is still our principal means of getting Australia’s exports to the rest of the world. So the efficiency of the waterfront is still vital. But what has happened to waterfront reform recently?

With apologies to Mark twain, reports that the Australian waterfront has been "fixed" are greatly exaggerated. Waterfront productivity in Australia still lags well behind our international competitors and if we do not undertake meaningful reform, that poor performance will continue.

Failure to reform directly impacts on the viability of other sectors of the economy, including our ability to improve Australia’s high unemployment levels.

The chronic problems associated with the waterfront continue despite regular government inquiries. According to industry sources, on average there has been a waterfront inquiry in Australia every four years for the last 50 years.

Reports and inquiries are not the answer. What is required is for the industry to adopt a truly competitive structure. Allowing free and competitive markets for stevedoring, employee coverage, port management and services such as tugs, would allow the industry to solve its own problems.

Competition would result in the removal of 'waterfront reform' from the lexicon—because free markets reform themselves on a perpetual basis.

Although the performance of the Australian waterfront goes through a cycle of improvement and decline, when compared internationally we hardly have an exemplary track record.

A comprehensive international benchmarking study by the Bureau of Industry Economics (1995) found that crane rates at the best performing Australian container terminal are equivalent to some of the poorest performances in Europe: Australian crane rates are 25-50 per cent behind the better performing ports; in terms of timeliness and reliability we also lag well behind comparable ports; and waterfront charges are 162 per cent higher than international best practice.

This is despite the establishment in 1989 of the Waterfront Industry Reform Authority (WIRA) which aimed at fundamental reform of the industry by injecting over four hundred million dollars levied on the industry and ultimately paid for by users.

At times, productivity in the industry can assume farcical proportions. For example, recently the much-vaunted Productivity Employment Programme (PEP) scheme, which P&O heralded as the way of the future, resulted in performance dramatically falling to levels achieved prior to WIRA.

The low productivity and high levels of waterfront charges reduce the competitiveness of industries which interact with the sector. For example, waterfront services account for over four per cent of the export price of agricultural and mining commodities and 2.7 per cent of the export value of manufacturers.

According to studies undertaken for the Economic Planning Advisory Council, wider reform in stevedoring could amount to savings in the vicinity of $400 million per year. This is, of course, only the tip of the iceberg: because the cost of inefficiency impacts upon almost all imported and exported goods, the multiplier effect of achieving these savings would have a fundamental effect on the entire Australian economy.

The waterfront is characterised by a union monopoly, effectively a stevedoring duopoly, and port authorities who still impose charges at monopoly rates. It is therefore not surprising that our efficiency is so poor. In order to achieve the economic benefits available, the Australian waterfront should strive for the following:

- competition between and within ports;
- optimum levels of investment and utilisation of capital equipment;
- flexible and productive workplaces;
- port authorities acting as trade facilitators, not revenue raisers; and
- ease of access for firms to enter into the stevedoring market, including ease of access to facilities at ports.

Although these structural problems warrant individual attention, there is a threshold issue which holds the key to all of them. This gatekeeper issue is industrial relations.

Industrial relations considerations permeate every aspect of the industry. A militant union (the Maritime Union of Australia) combines with poor management to produce restrictive work practices, communication problems, overmanning, strikes and other disputation.

Industrial matters can take as much as 70 per cent of management time, with labour costs accounting for 67 per cent of the total costs of a stevedoring firm.

Put simply, the opponents of waterfront reform will attempt to frustrate the process via industrial relations.

It is not surprising that the union does not want to disturb the closed shop and jobs-for-life culture on the waterfront. The average waterside worker is in an extremely privileged position, earning up to $100,000 per year. Given the MUA’s objection to productivity improvements, one may have thought the working conditions of waterside workers would be spartan. However, the typical waterside worker:
The Australian waterfront has had a disastrous strike record with no corresponding reform benefits. Even when useful reform is not at issue, there is high strike activity, so there are real incentives to press on and actually do something. This is not the time to put our heads in the sand. Australia is in dire need of waterfront reform. If in response the union movement threatens industrial disputation, this proves there is something seriously wrong which needs to be addressed.

The strike is the only weapon available to the MUA. Once the fear of its unfettered use is removed, both the union and the stevedores will be forced to deal with their problems constructively—not just ignore them and attempt to buy short-term solutions.

The union and stevedores are not solely to blame for the state of the industry—waterfront users need to take some responsibility as well. Although circumstances and vested interests conspire to exclude users, they have generally not taken sufficient interest in the transportation of their own products. This is a tragedy because users truly benefit from improved efficiency, and it is in their interest to push reform. In contrast, the incentives for unions and the stevedoring firms to reform is less clear.

Industry organisations such as the Australian Chamber of Commerce and Industry and the National Farmers' Federation have started this process by establishing the Shipping and Waterfront Reform Group. The aim of this group is to promote reform and act as a pressure group on industry and government. A cohesive voice for waterfront users is still in its infancy, but this should not deter businesses from becoming more involved in the transport chain and recognising the importance of a resolute stance on the waterfront.

As users become more involved, the Federal Government's position is still unclear. The legacy of previous waterfront disputes continues—in industry and users are reluctant to take decisive action without assured Government support, and the Government is equally reluctant to become involved if the parties themselves are ambivalent.

The answer is for business and the Government to send a clear message to each other that waterfront reform is a vitally important economic issue and that a robust strategy is required to fix the problems once and for all. Ironically, failure to do this will result in further industrial action over a longer period of time.

Given the importance of this issue, the Government has been surprisingly quiet, despite waterfront reform being a long-held Coalition policy. It is now time for industry to wake up to the benefits of reform and send a clear message to Government to implement its election commitment to bring the Australian waterfront up to world's best practice.
Economic Freedom and the Wealth of Nations

WHy do some countries prosper and grow rich while others do not? In the view of most economists, the key to prosperity is freedom—economic freedom.

When people have economic freedom—to go into business and occupations of their own choosing, to reap profit (and suffer losses) from their activities, to save and invest in productive projects, to enjoy full property rights, and to join in voluntary exchange with each other—they produce more. With time, these more productive societies will, for lack of a better word, become rich.

Freedom is also, of course, a valuable thing in itself. Restrictions on the freedom to choose and to engage in voluntary exchange deny human beings something they value—something that is an integral part of their humanity.

Over the last twenty years, this view has steadily gained acceptance around the world, including in Australia. It has been one of the core beliefs of the many reform movements—including Thatcherism, Reaganomics, Rogernomics, economic rationalism and the Asian Miracle—that have transformed our lives.

It is a basic tenet of the policy processes, including the WTO, APEC and the National Competition Policy, which will guide reform into the future.

Although widely accepted by most economists, the idea that freedom and prosperity are not only mutually reinforcing but even compatible, continues to be disputed by many, including the Hansonites, the Quadrant clique, the Greens and the Democrats.

Despite its pivotal role, the notion of economic freedom has received surprisingly little explicit, systematic attention. Without a measure of economic freedom over time, it is difficult definitively to rebut the critics.

To address this gap, the Fraser Institute in Canada, with the assistance of the IPA and 45 other similar organizations from around the world, has published the Economic Freedom of the World Report 1997.

The Report rates 115 countries on a zero-to-ten scale (with ten being the most economically free) over the 1975–1995 period. By a wide margin, the economic freedom index indicates that Hong Kong had the most free economy in 1995 and throughout the last twenty years. Singapore, New Zealand, the United States and Mauritius round out the top five. Australia tied for tenth place along with Malaysia, the Philippines, and Panama. At the other end of the spectrum Algeria, Croatia, Syria, Burundi, Haiti and Nigeria were the world’s least free.

Australia’s economic freedom rating has registered modest but steady improvement during the last decade. From 5 in 1975 to 7 in 1995, its world ranking has also risen from twenty-fourth in 1975 to tenth in 1995 (Chart 1).

Several factors have contributed to the improvement in Australia’s rating. Tariffs have been reduced and other trade barriers relaxed. The size of the trade sector has expanded from 14 per cent of GDP in 1975 to 20 per cent in 1995. Inflation has, during the last six years, been relatively low and stable. The government share of total consumption has declined. The top marginal tax rate on personal income has been reduced from the high levels of the 1975–85 period.

The major weakness of the Australian economy is its large and growing welfare sector. Total government expenditure rose from 30 per cent of GDP in 1975 to 37 per cent in 1995. The growth in transfer payments accounts for the growth of government during this period. In 1995, 15 per cent of GDP was transferred from one citizen to another, up from 8.5 per cent of GDP in 1975.

The central question remains: Is economic freedom linked with faster growth and higher levels of income? The accompanying charts illustrate that this is indeed the case.
FOCUS ON ECONOMIC FREEDOM

Chart 2 shows the correlation of per capita GDP in 1996 with economic freedom. The 'most free' countries (the top quintile) have GDP per capita of US$14,829 on average. The figure for the next quintile was US$12,369 and it declined for each quintile down to US$2,541 for countries comprising the 'least free' quintile. Achieved a positive growth rate while 25 per cent of the countries in the second quintile experienced negative growth. This increased to over 50 per cent for the 'least free' quintile.

Thus, both per capita GDP and its growth rate are positively linked to economic freedom.

Rather than look at the relationship between growth and economic freedom at one point in time, it is revealing to consider the linkage between changes in economic freedom and growth over time. If economic freedom, and therefore market-based reform, matter; then changes in freedom should be positively related to growth—perhaps with a time lag. Countries with substantial increases in economic freedom should achieve impressive growth rates while those becoming less free should experience stagnation.

This is what the results show. The ten countries that registered the largest increases in economic freedom (New Zealand, Chile, Mauritius, Iceland, Portugal, Argentina, Uganda, the Philippines, Norway and Jamaica) all experienced significant growth in per capita GDP over the 1985–96 period, averaging 2.4 per cent. In contrast, the ten countries with the largest decline in economic freedom experienced an average decline in per capita GDP of 2.4 per cent. Only one of these countries achieved positive economic growth.

Are changes in economic freedom only linked at the extremes, or is the positive relationship present throughout? Chart 4 illustrates the impact of a one-unit change in economic freedom on growth between 1985 and 1996. Countries with most change (3 points on a ten point scale) such as New Zealand, achieved growth of 2.7 per cent. Those with increases of between 2 and 3 points, such as Australia, achieved per capita growth of 2.1 per cent. Smaller and smaller increases in economic freedom are associated with slower growth. When economic freedom declined, so too did the growth of per capita GDP.

The robust positive relationship between both the level and change in economic freedom on the one hand, and growth of GDP on the other, provides powerful evidence that Adam Smith was right more than 200 years ago. Countries that follow policies more consistent with economic freedom reap a payoff in the form of rapid economic growth which, in turn, leads to higher living standards. Freer countries provide the structure for individuals to be more productive and achieve higher incomes more rapidly.

Mike Nahatan is Executive Director of the Institute of Public Affairs

REVIEW
JULY 1997
14
## Economic Freedom of the World: International Rankings

<table>
<thead>
<tr>
<th>Country</th>
<th>Summary Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hong Kong 1</td>
<td>9.3</td>
</tr>
<tr>
<td>Singapore 2</td>
<td>8.8</td>
</tr>
<tr>
<td>New Zealand 3</td>
<td>8.0</td>
</tr>
<tr>
<td>United States 4</td>
<td>7.9</td>
</tr>
<tr>
<td>Mauritius 5</td>
<td>7.6</td>
</tr>
<tr>
<td>Switzerland 6</td>
<td>7.4</td>
</tr>
<tr>
<td>U. K. 7</td>
<td>7.3</td>
</tr>
<tr>
<td>Thailand 3</td>
<td>7.2</td>
</tr>
<tr>
<td>Costa Rica 9</td>
<td>7.1</td>
</tr>
<tr>
<td>Malaysia 10</td>
<td>7.0</td>
</tr>
<tr>
<td>Philippines 10</td>
<td>7.0</td>
</tr>
<tr>
<td>Australia 10</td>
<td>7.0</td>
</tr>
<tr>
<td>Panama 10</td>
<td>7.0</td>
</tr>
<tr>
<td>Canada 14</td>
<td>6.9</td>
</tr>
<tr>
<td>El Salvador 14</td>
<td>6.9</td>
</tr>
<tr>
<td>Taiwan 16</td>
<td>6.8</td>
</tr>
<tr>
<td>Paraguay 18</td>
<td>6.8</td>
</tr>
<tr>
<td>South Korea 18</td>
<td>6.7</td>
</tr>
<tr>
<td>Japan 18</td>
<td>6.7</td>
</tr>
<tr>
<td>Bahrain 18</td>
<td>6.7</td>
</tr>
<tr>
<td>Netherlands 21</td>
<td>6.5</td>
</tr>
<tr>
<td>Guatemala 21</td>
<td>6.5</td>
</tr>
<tr>
<td>Ireland 21</td>
<td>6.5</td>
</tr>
<tr>
<td>Iceland 21</td>
<td>6.5</td>
</tr>
<tr>
<td>Bolivia 25</td>
<td>6.4</td>
</tr>
<tr>
<td>Argentina 25</td>
<td>6.4</td>
</tr>
<tr>
<td>Chile 25</td>
<td>6.4</td>
</tr>
<tr>
<td>Germany 25</td>
<td>6.4</td>
</tr>
<tr>
<td>Oman 29</td>
<td>6.3</td>
</tr>
<tr>
<td>Belize 29</td>
<td>6.3</td>
</tr>
<tr>
<td>Uruguay 29</td>
<td>6.3</td>
</tr>
<tr>
<td>Indonesia 29</td>
<td>6.3</td>
</tr>
<tr>
<td>Peru 29</td>
<td>6.3</td>
</tr>
<tr>
<td>Belgium 29</td>
<td>6.3</td>
</tr>
<tr>
<td>Bahamas 35</td>
<td>6.2</td>
</tr>
<tr>
<td>Mexico 35</td>
<td>6.1</td>
</tr>
<tr>
<td>Finland 36</td>
<td>6.1</td>
</tr>
<tr>
<td>France 36</td>
<td>6.1</td>
</tr>
<tr>
<td>Fiji 36</td>
<td>6.1</td>
</tr>
<tr>
<td>Norway 36</td>
<td>6.1</td>
</tr>
<tr>
<td>Austria 36</td>
<td>6.0</td>
</tr>
<tr>
<td>Portugal 42</td>
<td>5.9</td>
</tr>
<tr>
<td>Jamaica 42</td>
<td>5.9</td>
</tr>
<tr>
<td>Denmark 42</td>
<td>5.9</td>
</tr>
<tr>
<td>Honduras 42</td>
<td>5.9</td>
</tr>
<tr>
<td>Spain 42</td>
<td>5.9</td>
</tr>
<tr>
<td>Sweden 42</td>
<td>5.9</td>
</tr>
<tr>
<td>Botswana 48</td>
<td>5.8</td>
</tr>
<tr>
<td>Malta 48</td>
<td>5.8</td>
</tr>
<tr>
<td>South Africa 50</td>
<td>5.7</td>
</tr>
<tr>
<td>Barbados 50</td>
<td>5.7</td>
</tr>
<tr>
<td>Sri Lanka 52</td>
<td>5.6</td>
</tr>
<tr>
<td>Dom. Rep. 52</td>
<td>5.6</td>
</tr>
<tr>
<td>Estonia 52</td>
<td>5.6</td>
</tr>
<tr>
<td>Colombia 55</td>
<td>5.5</td>
</tr>
<tr>
<td>Lithuania 55</td>
<td>5.5</td>
</tr>
<tr>
<td>Italy 55</td>
<td>5.5</td>
</tr>
<tr>
<td>Ecuador 55</td>
<td>5.5</td>
</tr>
</tbody>
</table>

Note that the rankings are for the year 1995.
The Links between Economic Freedom and Social Cohesion

WINTON BATES

The first reaction that some readers will have when they see the title of this article will be to wonder whether links is an appropriate word to use in this context. Economic freedom is usually thought of as having to do with promoting economic efficiency. Social cohesion, on the other hand, is usually thought of in the context of distributional equality—the idea that large and widening disparities in incomes between rich and poor may be socially divisive. This could suggest that it might be more appropriate to think in terms of tradeoffs between economic freedom and social cohesion, rather than in terms of links.

I think we should break out of this 'tradeoff' mentality and consider the possibility that improvements in economic freedom may tend to reinforce social cohesion rather than damage it. The idea of a trade-off between efficiency and equality was popularised in the 1970s by an eminent macro-economist, Arthur Okun, who had specialised throughout his career on the tradeoff between inflation and unemployment. In my view, the parallels between these ideas are indeed quite strong. Neither idea is entirely without merit, but when either idea dominates economic policy it results in poor outcomes.

Politicians are captured by a tradeoff mentality when they argue that social cohesion can be protected by avoiding the short-term disruption associated with economic reforms. This idea, which appears to have become increasingly popular in Australia over the last couple of years, has a lot in common with a notion that was popular 30 years ago: that lax policies toward inflation were helping to keep unemployment low. Governments subsequently learned the hard way that by allowing inflationary expectations to develop, they made unemployment worse, not better.

By adopting lax policies toward economic reform, governments discourage anticipatory adjustment and make the adjustment process more, rather than less, disruptive. Firms and their employees have an incentive to delay or resist adjustment when they believe that interest groups are likely to be successful in having tariff protection and other restrictions on economic freedom maintained.

What is economic freedom? James Gwartney and Robert Lawson suggest that the central elements of economic freedom are personal choice, freedom of exchange and protection of private property. Their index of economic freedom enables objective international comparisons to be made of the extent to which the policies of individual countries provide:

- low and stable inflation (freedom from the inflation tax);
- freedom of citizens to decide for themselves what is produced and consumed;
- freedom of exchange with foreigners; and
- freedom of citizens to keep what they earn.

Social cohesion can mean different things to different people, but there is general agreement that it is lacking when large numbers of people display extreme discontentment with aspects of the society in which they live. In my view, important characteristics of a cohesive society include:

- voluntary commitment to constitutional processes and the peaceful coexistence of all groups (reinforced by a sense of belonging and respect for others);
- a high degree of personal security for all (protection of children and others unable to fend for themselves, low levels of crime, protection against the arbitrary use of power by those in authority); and
- widespread opportunities to participate in and share in the benefits of economic activity and widespread involvement in other forms of voluntary social interaction including membership of community organisations.

Since redistribution of income by governments reduces economic freedom, it might be thought that a high level of economic freedom would result in 'the rich getting richer while the poor get poorer'. If this occurred as a general tendency, it would be reasonable to argue that high levels of economic freedom are not consistent with widespread sharing in the benefits of economic activity and hence not consistent with social cohesion.

So, what are the facts? Is there a general tendency for those at the bottom of the income distribution to be worse off in coun-
tries with high levels of economic freedom than in countries with low levels of economic freedom?

The World Bank has published, in its World Development Report (1996), information on income distribution (based on household income and expenditure surveys) from which it is possible to estimate the average per capita income of the poorest 20 per cent of the population for 23 countries. (The surveys in different countries cover different years ranging from 1985 to 1992.) In the accompanying chart this information is matched with the average freedom rating (Gwartney and Lawson estimates) of these countries over the period 1975 to 1995. The data set is far from ideal, but if there has been any clear tendency for the poor to be worse off in countries with high levels of economic freedom this should nevertheless show up in the chart.

If anything, the chart shows that per capita incomes of the poor tend to be higher in countries with high levels of economic freedom. This is obviously no more than a tendency—there are five countries identified (in the bottom right-hand corner) with relatively low economic freedom ratings in which the poor have very low per capita income levels. However, the average incomes of the whole population in each of these five countries is also low. Moreover, in three of these countries (Malaysia, Indonesia and Thailand) incomes of the poor have been rising rapidly—the rate of increase in average incomes of the poorest 20 per cent of the population was greater than 6 per cent per annum in each of these countries.

How can we explain why low-income earners tend to be better off in countries with high levels of economic freedom? The most likely explanation is that high levels of economic freedom foster economic growth which, in turn, provides widespread opportunities for members of the population to improve their lot. Gwartney and Lawson show that there is a strong positive relationship between economic freedom and economic growth. They ranked the 115 countries in their study from highest to lowest in terms of economic freedom rating and divided them into quintiles. The average economic growth rates over the period 1985–1996 of each quintile (ranked from highest to lowest) is reproduced below:

<table>
<thead>
<tr>
<th>Quintile</th>
<th>% per annum</th>
</tr>
</thead>
<tbody>
<tr>
<td>1st Quintile</td>
<td>2.9</td>
</tr>
<tr>
<td>2nd Quintile</td>
<td>1.8</td>
</tr>
<tr>
<td>3rd Quintile</td>
<td>1.1</td>
</tr>
<tr>
<td>4th Quintile</td>
<td>0.1</td>
</tr>
<tr>
<td>5th Quintile</td>
<td>-1.9</td>
</tr>
</tbody>
</table>


There is also a positive relationship between overall rates of economic growth and the growth rates of average incomes in the bottom 60 per cent and lowest 20 per cent of income distributions. This is evident in the following table (based on the income distribution data compiled by the World Bank) which was prepared by ranking countries by per capita income growth:

<table>
<thead>
<tr>
<th>Average income growth</th>
<th>60%</th>
<th>20%</th>
</tr>
</thead>
<tbody>
<tr>
<td>1st Quartile</td>
<td>4.9</td>
<td>5.7</td>
</tr>
<tr>
<td>2nd Quartile</td>
<td>2.4</td>
<td>3.4</td>
</tr>
<tr>
<td>3rd Quartile</td>
<td>1.7</td>
<td>1.2</td>
</tr>
<tr>
<td>4th Quartile</td>
<td>0.2</td>
<td>1.0</td>
</tr>
</tbody>
</table>

The proliferation of ... entitlements appeared to make Australia more cohesive in the past .... In reality, it was damaging the economy and, hence, undermining the basis for social cohesion.

Every additional entitlement that any group is granted to protect against any kind of misfortune creates additional discontent not only among those who have to pay for the provision of this entitlement—for example, through higher taxes—but also among other groups who perceive that they should also be entitled to protection against the particular misfortunes that confront them. This can easily result in an explosion of entitlements: industry protection all round, price controls, award wages and a host of other restrictions on economic freedom.

The experience of the countries in the fourth quartile appears anomalous, but may be attributable to the existence of substantial redistribution of income by the governments of some of the countries in this group (for example, Hungary and Kenya) during the period covered. It is likely that redistribution was actually an important factor contributing to the low overall rates of economic growth experienced in some of these countries.

This leads to an important point that is often missed by those who argue that heavy government involvement in income redistribution contributes to social cohesion. When governments encourage people to believe that they are entitled to protection against all sources of insecurity they provide them with incentives to act in ways which reduce the size of the national cake from which promised 'entitlements' have to be met. The granting of excessive entitlements thus sows the seeds of the discontent that is inevitable if the entitlements become unaffordable.

The discontent that inevitably arises when governments fail to deliver on promised entitlements is compounded by the fact that many people have come to rely on these entitlements as a major source of their income. In Australia, as in many other countries, there has been a substantial transfer of responsibility for the elderly, the ill and children from the family to government, and governments have largely displaced friendly societies in the provision of social insurance.

Fortunately, various governments in Australia have made efforts to dismantle some of the entitlements that have been damaging economic growth before the whole ramshackle edifice of entitlements collapsed upon itself. These reforms have enabled major social trauma to be avoided, but have nevertheless left a significant proportion of the population confused and resentful, yearning to turn the clock back to a time when governments appeared able to guarantee ever-greater security. The challenge that faces the present Government, then, is to promote more widespread understanding of two simple propositions:

- first, that improved social cohesion depends on a healthy economy, and
- second, that to promote a more healthy economy further economic reform is required.

Australia—The Verdict in Full

Australia’s economic freedom rating has registered modest but steady increases during the last two decades. Its ranking has also risen. In 1995 the Australian economy ranked 10th, compared to 24th in 1975 and 15th in 1985.

Several factors have contributed to the improvement in Australia’s economic freedom rating. Tariffs have been reduced and other trade barriers relaxed. The size of the trade sector has expanded from 14% of GDP in 1975 to 20% in 1995 and 1996. During the last six years, the inflation rate has averaged 2.3% and it has been relatively stable. While government consumption accounted for 21.9% of total consumption (government plus private) in 1995, even this figure has declined slightly during the last decade. The top marginal tax rate on personal income has been reduced modestly from the high levels of the 1975–1985 period.

The major weakness of this economy is its large and growing transfer sector. Total government expenditures rose from 30% of GDP in 1975 to 37% in 1995. The growth of transfer payments partly offsets the growth of government during this period. In 1995, 15% of GDP was transferred from one citizen to another, up from 8.5% of GDP in 1975. Generally, the growth of transfers leads to large budget deficits, reductions in investment (as a share of GDP) and high rates of unemployment. All of these factors have plagued the Australian economy during the 1990s. Since 1990, the budget deficits of the central government have averaged 3% of GDP; the investment rate has declined, and the rate of unemployment has hovered around 10% of the labor force. Like several other high-income industrial nations, Australia must reduce the size of its income transfers and provide citizens with private sector options that will encourage saving and investment if it wants to achieve strong growth and continued prosperity in the future.

Source: Economic Freedom of the World, page 45
ECONOMIC freedom is a concept which is at the same time evocative and provocative. To those who think of freedom in some sense as a good in itself it seems obviously attractive, even though others will see it as either inimical or irrelevant to some other good for the individual, the group or humanity. Not everybody conceives of freedom in the individual sense, according to any dimension, as necessarily desirable; and there is a long tradition of denial of the desirability even of political freedom or liberty.

Economic freedom is clearly not a conservative notion.

The idea that economic activity should be free of state direction and authority that individuals should be at liberty to determine the disposal of their own labour and assets, and that considerations of social structure and authority should take precedence over individual decision-making is foreign to both traditional and romantic conservatism. 'God bless the squire and his relations/And keep us in our proper stations' is not a sentiment compatible with the idea of economic freedom. Nor is the concept of 'noblesse oblige', which presumes a relationship between those with hereditary wealth and power and the rest of the community.

That is, economic freedom is directly at odds with the older tribal notions of social solidarity which are so fundamental to much of human biological and social evolution, and for which all of us have some primitive hangenings. Nationalism in its extreme forms is an expression of such tribalism, and is therefore at odds with relations mediated through the market and other non-human mechanisms.

Collectivism or socialism in its various forms is essentially a reactionary notion, a desire to return to conservative tribal bonds, a kind of feudalism, though characterised in its modern forms by the claims of an oppressed class as against an oppressing class. The aim of socialism is to restore the cosy solidarity of feudalism in its ideal form but with a different structure of authority, and without the hereditary elements of conservatism. In its economic prescriptions, collectivism involves the compulsory eradication or at least reduction of the economic inequalities which result from the combination of differing human endowments and economic freedom. It is thus inherently oppressive—libertarian socialism is a contradiction in terms.

It is inevitable that all societies which attempt to promote collectivism have to invent the concept of an economic crime, and punish those who act in such a way as to accumulate individual capital or conduct market transactions based on individual self-interest and profit motivation. The strength of such transactions is such that they inevitably corrode relations based on authority or common goals. The market is indeed deeply corrosive of human relationships if none but economic motives exist.

The only way to have a society in which equality and common ownership (that is, state ownership) of property is not undermined by economic freedom is to outlaw free economic activity and the pursuit of profit, or to so transmute human nature as to make people seek other goals rather than personal benefit. Despite the deaths of hundreds of millions of people in this century alone in the course of this endeavour, there is little prospect of such a transformation of human nature. On the contrary, the outlawing of economic freedom mediated through markets merely leads to the pursuit of self-interest by other means—the obtaining of honours, status, government or ecclesiastical position, military glory and the control of resources through organisational means rather than direct ownership. Collectivist societies produce phenomena like the Soviet Union's nomenklatura, or the emergence of a 'new class' of administrators and professionals.

There is always an element of primitive religiosity in the opposition to economic freedom. The two models which contrast most with it are the concept of the human family and the concept of the heavenly kingdom. In the human family personal relationships are at their warmest and strongest, altruism and collectivity at their clearest. Naturally most people like to think of the whole of society, or indeed the whole of humanity, as having some characteristics of this family relationship.
FOCUS ON ECONOMIC FREEDOM

Ultimately, the justification of economic freedom as a good in itself has to come from the individual judgement that liberty of thought, conscience and act under the law is to be preferred to a system in which every good and resource is distributed by collective or ranking authority.

There is not a single example of a society which enjoys political liberty without a considerable degree of economic freedom.

But the family becomes oppressive for adult children, who have to throw off the authority of the head of the family in order to realise their own adulthood and found their own families. And while the idea of mutual sharing as in a family is always attractive, it again requires an authority structure which denies the difference between childhood dependency on a loving parent on the one hand, and mutually cooperative and respectful relations between adults on the other.

The idea of the Kingdom of Heaven, and the equality of every person before God, is an attractive one and the basis for most forms of socialism; the equality of every soul before God, their equal value in His eyes, becomes confused, however, with the idea that every person should be equal before Man. The patent impossibility of this in terms of varying incidences of genetic endowment, beauty, intelligence, strength, and so on, does not detract from the nobility of the concept of equality before God. But to try to translate this theological notion into the basis for a society implies the belief in a theocratic family and a theocratic society. Atheist theocracies get the worst of both worlds.

A more modern version of this is the current talk about 'civil society'. This was a term which was used by the eighteenth-century moral philosophers Adam Smith and Adam Ferguson and others to distinguish the voluntary or natural associations in a complex community from the relations imposed by law and presided over by the central authority of the state. It was developed by Hegel, and revived in the last couple of decades by those intellectuals who, in the throes of the decay of European communism, wanted to stress the contrast between government and civil society, and the importance of social institutions and relationships between individuals independent of government and state.

In Australia it has become debased into talk of a 'civil society', which glorifies big government and interprets 'civil' in the dictionary sense of civility meaning politeness and courtesy, and then extends it to meaning being nice to people by providing them with unpriced (but rationed by other means) goodies like child care for bourgeois ladies.

Economic freedom in no way conflicts with voluntary associations between individuals for non-economic or only partly economic purposes, any more than it conflicts with the internal relationships of nuclear families. It is independent of any fancy theorising about the stability or the existence of a theoretic equilibrium of a market, and is perfectly compatible with, indeed requires, the existence of a state apparatus and the rule of law.

Feudal and tribal structures are logically and historically pre-market; once there is a mechanism for free exchange in honest and equal terms between individual responsible adults then arbitrary allocation of prizes, food and shelter by a central authority becomes obviously unjust. It is replaced by the concept of a safety net, that is implicitly a guarantee of survival to those who by accident of fate or fortune are unable to look after themselves.

Ultimately, the justification of economic freedom as a good in itself has to come from the individual judgement that liberty of thought, conscience and act under the law is to be preferred to a system in which every good and resource is distributed by collective or ranking authority. Economic freedom involves the accidental and anonymous outcomes of markets which have no moral significance, while its absence is more like a system of honours and awards, like the Order of Australia, in which gongs and titles involve the recognition of moral worth and merit as adjudged by the great and the good, by power groups and by corruption. By contrast, through the market, rewards are distributed without any accompanying moral messages, and thus provide an area of freedom from collective judgement, fashion and authority.

Economic freedom also has a strong libertarian dimension, as implied by the old anarchist slogan 'ni dieu, ni maître', or by Bakunin's declaration that 'If God existed it would be necessary to abolish Him'. That is, it is a denial of the right of God, State or person to allocate moral merit by direct judgement. While every viable polity must have an element of collective morality, its sphere is limited by the right of people to conduct themselves as they will to their own best advantage within the limits of the rule of law, whether by making money or by refusing to make money. Everyone is entitled to get her to a nunnery — economic freedom implies that it is a matter of free choice.

As such it can be treated as a moral good in itself, and one which is held in high esteem by many people. Whether it is a necessary condition for political liberty also can be strongly argued to be true; certainly as the example of Singapore shows it is not a sufficient condition. But there is not a single example of a society which enjoys political liberty without a considerable degree of economic freedom.
Energy Policy in Western Australia

THE WA ECONOMY
At a steady annual 6 per cent, WA's rate of economic growth rivals the Asian 'Tiger' economies.
Projected growth in WA's energy consumption, at 5 per cent a year, is over twice that of other States. Growth is being propelled by a renewed mineral development surge and increased interest in processing. But the energy growth projections in Figure 1 will be stunted—as will the associated increase in prosperity—if the price is not right.

OVERALL ENERGY POLICIES
The WA Government is opening up the energy market to competition. Robust competition is one of the keys to ensuring lower prices: competition ensures that suppliers are constantly vigilant in seeking out cost savings in order to improve their position against rivals. But the opening of WA's market has been too slow, and so prices are higher than they could be.

WA businesses are far less free to choose their own supplier than those in other States. Under announced policy, only the largest twenty firms will be free to choose their own supplier by July 1999. By then, all but the smallest businesses and households will have been freed up in NSW and Victoria, with SA and Queensland not far behind.

In electricity, Western Power has failed to match the efficiency of power producers in the Eastern States—and those producers in turn have been far less efficient than many overseas counterparts. And though Western Power is involved in a vigorous outsourcing exercise, this brings little competition within WA's market structure. There are, moreover, no plans to have Western Power's generation plants disaggregated into competing sources. This puts considerable—and on past record, unwarranted—confidence in the abilities of a centrally-controlled authority to find low-cost ways of meeting consumer needs.

Again in the case of gas, announced plans cover the release of only the very largest users from 'captive customer' status.

The enormous gas quantities available at world prices from the North-West Shelf offer WA an energy advantage over other Australian States and potential competitors overseas. But the present gas price in WA is not particularly low, being comparable with that in South Australia and Victoria. There are several reasons for this:

- the long distance that the gas is transported adds 50 per cent to the original costs by the time the gas is delivered to the Perth market; some such cost penalty is inevitable, but transport costs are considerably higher than those of comparable pipelines as a result of the high operating costs and the excessive initial costs of the Dampier to Bunbury Natural Gas (DBNG) Pipeline;
- the relatively high contract price believed to have been agreed for the gas contracted by the North-West Shelf Joint Venturers;
- competition is constrained because the existing pipeline is

---

**Figure 1: Actual and Projected Energy Consumption Growth**

![Graph showing energy consumption growth from 1980-1996, 1996-2003, and 1996-2010]

**Table 1: Announced Plans for Deregulation of Customers**

<table>
<thead>
<tr>
<th>Threshold</th>
<th>Type examples</th>
<th>NSW</th>
<th>Vic</th>
<th>Qld</th>
<th>SA</th>
<th>WA</th>
</tr>
</thead>
<tbody>
<tr>
<td>750 MWh</td>
<td>supermarkets</td>
<td>1997</td>
<td>1996</td>
<td>2000</td>
<td>1999</td>
<td>—</td>
</tr>
<tr>
<td>remainder</td>
<td>—</td>
<td>1999</td>
<td>2001</td>
<td>2001</td>
<td>2001</td>
<td>—</td>
</tr>
</tbody>
</table>

*Qld 160 MWh is above 200 MWh

---

close to capacity, and there are very limited opportunities for end-users to contract directly with the suppliers;

- moreover, shippers must supply LPG-rich gas or incur a penalty.

THE NATIONAL REFORM AGENDA

The national competition reforms following the Hilmer Report have lent increased urgency and an added discipline on State governments to open up markets to competition and neutralise any commercial advantage enjoyed by State-owned businesses. Not only are such measures beneficial to the efficiency of State economies, but the Commonwealth also agreed to share the benefits it obtains in terms of higher income taxes from more efficient, more profitable businesses. These payments depend on each State's satisfying the National Competition Council that it is taking appropriate action to implement reform.

States therefore stand to make a dual gain from opening previously closed markets to competition—the increased productivity of their supply industries is augmented by special payments. WA's share of the $16 billion payments is about 10 per cent.

WA ENERGY POLICY

The pivotal nature of gas in WA's energy places pipeline policy at centre stage, and the crucial pipeline is the DBNG line with a present capacity of about 500 terajoules per day.

The growing demand for gas in WA is creating an urgent need for the construction of increased capacity from the North-West shelf. At issue is whether to add to, or even double, the capacity of the existing pipeline or whether to build one or more additional pipelines.

The issue has taken on major dimensions with rival proposals. And previous decisions are influencing the government's own stance.

A monopoly like the DBNG pipeline facing competition in a previously sheltered market will automatically see some of its ostensible value reduced. Retention of that value is only possible by maintaining a price burden on customers. By withholding approval for a rival facility, the government would achieve a higher price for the existing pipeline. But that higher price would merely represent a tax imposed on consumers and businesses by government regulation. Higher energy prices mean a likelihood of thwarting some of the predicted expansion in energy usage, including some of the value-adding activities that the government is seeking to foster in the South-West.

Although the government is seeking to move the State's energy and resources policies to a less-regulated, privately-owned basis, energy policy in the State remains haunted by previous deals. The most important of these concern gas, which is the key to WA's energy future.

The government is seeking to ensure that its previous decisions do not have an adverse effect on the taxpayer. But if policies are followed that artificially ramp up the price of assets or prevent competition from pushing prices down, the taxpayer's gain is the customer's loss. Increased prices for the existing pipeline and protection of the Alinta and Western Power gas contracts can only be engineered by denying users lower prices that would otherwise be available.

The government has announced that it will sell the DBNG line. But in doing so, it has also announced that no new pipeline will be approved before 1999. This means that a rival pipeline cannot commit to supply some crucial contracts that were available and is likely to offer the DBNG line at least five years' continued monopoly.

APPROPRIATE POLICY APPROACHES

The appropriate approach to problems of sunk costs and 'stranded' assets is to have the equity-owner carry the costs, unless the owner has incurred expenditures on the basis of government assurances, in which case the government must incur some of the costs. The shareholder is in the risk-taking business and is motivated by the pursuit of high profits and avoiding losses. Where the government is the shareholder, the taxpayer will make these gains or losses—and the superiority of private enterprise partly stems from governments being ill-equipped to take on entrepreneurial roles.

Bygones should be treated as bygones and not to deny users lower prices. If some of the sunk costs are to be recouped directly from customers rather than from shareholders/taxpayers, this is best achieved by means of a surcharge levied on all users (other than those that have contracted at a fixed price). Such measures are applied in US jurisdictions and have been used in Victoria, where the excess costs of the Loy Yang B power station are defrayed by a customer 'uplift' payment of $2 per megawatt hour. Measures like this are inferior to writing off the costs, because prices are increased and some worthwhile usage is choked off, but they are preferable to denying the construction of a new facility.

Policy that rejects preventing new investment is also the basis on which our Hilmer-inspired competition policy is to be pursued. The reforms were estimated by the Industry Commission to bring real annual net gains in GDP of $23 billion. The Commonwealth, in recognition that it gains a larger proportion of the tax 'dividends' than State Governments, is to share $16 billion of this gain with the States over the next nine years, providing that the States abide by their competition reform obligations. Withholding regulatory approval is generally alien to good government, and has no place in a post-Hilmer world.

Dr Alan Moran is Director of the Deregulation Unit within the IPA in Melbourne
The Cannibalised Academy

The vulgarian American President Lyndon Johnson used to say that President-to-be Gerald Ford was so dumb that he couldn't fart and chew gum at the same time. The deceitful way in which many in the media and academia reacted to accounts of Aboriginal cannibalism in Pauline Hanson's ghost-written book shows that they have a similar view about the Australian public: it is too stupid and beastly to hear the truth and be tolerant at the same time. Their mendacious response, which would be readily apparent to anyone who cares to check the anthropological record, was also foolish, for it could only feed the belief held by many of Hanson's supporters that when it comes to Aboriginal issues, the élites tell lies.

It was those bêtes-noires of all right-thinking intellectuals, Bill O'Chee and Christopher Pearson, who offered the most sensible response to the outcry. They noted that cannibalism did traditionally occur among many Aboriginal groups, but that its relevance to moral evaluations of contemporary Aborigines is about the same as the relevance of slavery or the burning of witches to the moral status of contemporary Westerners. Of course, this is not a particularly attractive argument for some academics and Aboriginal politicians, because they want to reach back to the Middle Ages (and before) to obtain the cudgels they can use to berate the Western culture that they loathe. But it is an argument that should be sufficient for the rest of us.

The anthropologist Kenneth Maddock published a fine article in the *Sydney Morning Herald*, pointing out that there were many well-attested accounts of Aboriginal cannibalism. The practice was undertaken for various motives but, unlike the situation in some Pacific Islands such as Fiji or New Zealand, the mass slaughter of enemies or others for the specific purpose of eating them did not seem to have occurred. He also pointed out that one of the standard texts on Australian Aboriginal culture, Ronald and Catherine Berndt's *The World of the First Australians*, contained an extended discussion of Aboriginal cannibalism, and that it had recently been reissued by the Australian Institute of Aboriginal and Torres Strait Islander Studies (AIATSIS).

Even more recently, AIATSIS reissued A.W. Howitt's classic study, *The Native Tribes of South-East Australia*, first published in 1904, which also contains significant material on Aboriginal cannibalism, including accounts provided to Howitt by Aborigines who had formerly participated in cannibalistic episodes themselves. (In line with AIATSIS's increasingly patronising policy towards Aborigines, however, the reprint comes with an additional section headed 'Warning', which includes the following: 'If your circumstances and beliefs are such that you might find some of this material distressing you may wish to seek advice from elders of appropriate Aboriginal communities before reading this book."

But Maddock's honesty was the exception. A succession of prominent historians and anthropologists were quoted in the media as giving assurances that Aborigines had not practised cannibalism, and that such allegations were little more than a means of denigrating the humanity of people who were perceived as utterly alien. Indeed, following in the footsteps of a widely-read revisionist, but demonstrably mistaken, book of the late 1970s by William Arens, some suggested that claims that any indigenous people were cannibals were false. Henry Reynolds told the nation that 'there is no evidence whatsoever that Aborigines were cannibalistic'. Monash University anthropologist Michael Stevenson claimed that 'there is very clear evidence that cannibalism is a social fantasy' and blamed Christopher Columbus.

Michael Allen, a former professor of anthropology at Sydney University, was quoted as stating that it is "fantastically difficult" to say with any certainty whether or not cannibalism occurred in the Pacific Islands 100 or 200 years ago, although he did believe 'that it may have happened sporadically in Vanuatu. "But only in a specific religious sacrifice"'. I found Professor Allen's comments most surprising, and can only hope that he has been misquoted. He was my teacher at Sydney University, and it was at his instigation that I went to Vanuatu to carry out anthropological research in the 1970s. Over the many years during which we discussed the anthropology of Vanuatu and other Pacific Islands I cannot recall hearing him express such strange doubts. Indeed, the people with whom I worked on the Vanuatu island of Tanna freely admitted that cannibal-
Freedom in the New Zealand Labour Market

ROGER KERR

Six years after major reform of New Zealand's labour market was implemented, the results are fairly clear. Roger Kerr provides this assessment.

There seems to be a natural life cycle to most soundly-based economic reforms:

• first, a period of denial of the need for change, and fierce opposition to reform proposals;
• second, the build-up of a political consensus that the old ways were not working, and the implementation of a policy change;
• third, a growing public acceptance of the reform as the benefits show up, to the point where it loses its controversial edge and fades from the political agenda.

In New Zealand, this cycle has run its course with the abolition of import licensing, financial market deregulation, GST, liberalisation of shop trading hours, port reform, the Reserve Bank Act, corporatisation and the great majority of other recent economic reforms.

We seem to be in the third of these phases with the Employment Contracts Act 1991 (ECA). Two general elections after its implementation, one of them under new electoral rules, the ECA seems to be securely in place. Five years ago, opponents of the ECA outnumbered supporters by nearly two to one; in recent polls more people have approved of it than disapproved. At the last general election, 60 per cent of the electorate voted for parties which supported the ECA. This was reflected in the coalition agreement to retain the legislation, and indeed to address some of its weaknesses. In its negotiations with NZ First, Labour backed off its policy of repealing the ECA, and it will no longer be credible for Labour to revert to that stance. Moreover, unlike the situation under first-past-the-post, there seems little prospect under MMP of any coalition of parties committed to repeal of the ECA being able to form a government.

Developments and debate internationally have confirmed the correctness of New Zealand's decision to opt for a flexible, decentralised labour market.

The Howard Government in Australia has abandoned the centralised Accord and it seems unlikely to be revived. Britain, the only OECD country besides New Zealand to implement major labour market reform in recent years, now has an unemployment rate of 6.5 per cent whereas unemployment in much of continental Europe is around twice that level. The flexible US labour market has created a net 8 million jobs since 1991, whereas the European Union has lost 5 million. And the fast-growing Asian economies with the freest labour markets of all are continuing to maintain high growth and low unemployment.

We can now survey the record of nearly six years' experience since the ECA was enacted in May 1991 and compare it with the predictions of collaps-

Dr Ron Brunton is Director of the Indigenous Issues Unit within the Institute of Public Affairs.
ing wages, anarchy and exploitation made by some at the time. Since the recession ended in mid-1991,
• output has grown by nearly 20 per cent, and the economy is into its sixth successive year of economic growth;
• employment has grown by over 220,000 jobs (at an average annual growth rate of 4.5 per cent in the last three years), and there have been more jobs created than there were unemployed in 1991;
• the number of people working full-time has increased by 159,000, some 72 per cent of the new jobs;
• the unemployment rate has fallen from its peak of 10.9 per cent (seasonally adjusted) in the September quarter of 1991 to 5.9 per cent in the December quarter of 1996;
• long-term unemployment has fallen faster than the overall unemployment rate, and has dropped by over 40 per cent in the last two years; and
• the rate of employment growth has been higher for Maori and Pacific Islands people than for Europeans, and unemployment has declined for all ethnic groups and across the country.

Of course, not all of these improvements can be attributed to the ECA. Separating out the effects of the ECA from other influences is a difficult, if not impossible, task. The best attempt has been made by Tim Maloney of the University of Auckland. His latest work suggests that around 16 per cent of the employment growth has been made by Tim Maloney of the University of Auckland. His latest work suggests that around 16 per cent of the growth in employment—its itself a large number—may be directly due to the ECA and an indeterminate amount (at the limit 100 per cent) may be due to its direct and indirect effects combined. Maloney's results, however, are driven largely by the postulated employment creation effects of the fall in unionisation in different industries. While this effect is plausible (since we have long known that unions and collective bargaining in regulated labour markets are bad for employment), it captures only part of the job creation story.

In my view, the problem of estimating the employment effects of the ECA in a precise way with any analytical model is virtually intractable. One can get a better feel for them by looking at the comparative experiences of New Zealand and Australia in recent years. While economic growth in New Zealand and Australia has been similar since mid-1991, employment growth was 15.1 per cent in New Zealand compared with around 8 per cent in Australia. Unemployment has fallen in New Zealand to 5.9 per cent of the labour force, but it has fallen from a similar peak in Australia to only around 8.5 per cent. Moreover, virtually all Australian observers expect unemployment in Australia to remain stuck at about that level over the next few years because the Howard Government has done too little to create a genuinely free labour market, whereas in New Zealand unemployment should continue falling.

Thus there is little doubt that the ECA has been a phenomenal job creation machine, whereas the previous regime was a machine for job destruction. Under the Labour Government's unbalanced economic framework, employment actually fell (by 17,000 jobs) in New Zealand between 1984 and 1990. The ECA has also brought about enormous changes in enterprise culture—in particular, far greater trust and co-operation in workplaces, less competition and more job security. Some critics, however, have still not given up: the patently silly claims about the 'Richardson recession' and then 'jobless growth' have given way to debates about productivity and income trends. I am confident that events will show that the critics' views on these issues are equally mistaken.

On productivity, the argument is that productivity growth has been poor since 1991. A forthcoming Business Roundtable study by Geoff Hogbin will explore this claim in detail. No one should expect growth in average labour productivity to be sensational at a time when the economy has been absorbing thousands of unemployed workers, many of them with low skills. This point notwithstanding, microeconomic data, such as firm-based surveys, point to significant productivity gains: the New Zealand Institute of Economic Research found that 75 per cent of firms considered the net impact of the ECA on productivity had been positive. Moreover, the best general study to date, by Professor Viv Hall of Victoria University, shows no story of a slowdown even in average labour productivity. Far from being 'poor', labour productivity growth has held up at an average of 2.0 per cent a year.

More importantly, the post-ECA economic expansion shows much greater capital productivity growth (2.7 per cent versus 0.0 per cent) and considerably higher total factor productivity growth (2.3 per cent versus 1.3 per cent) compared with the previous expansion phases. With the labour market tightening, future growth in output will depend increasingly on productivity growth driven by investment in physical and human capital, continuing structural and technological change, and a sound structure of incentives in all markets.

In respect of income trends, the Treasury pointed out in its post-election briefing that some degree of wage disparity between high- and low-skilled jobs is needed to generate the dynamic processes required to make human capital a more significant driver of productivity growth and, over time, to reduce poverty and income disparities. The post-ECA period has seen greater rewards for skill, and the number of industry trainees is at an all-time high. The ECA has also brought about a radically changed relationship between labour market insiders and outsiders, with the unemployed having greater opportunities to compete for jobs. The available data suggest that measures of poverty and inequality both increased with rising unemployment in the late 1980s and early 1990s, due to the Labour Government's failure to tackle the problem of the rigid labour market. From 1992-93, the trends appear...
to have reversed, consistent with the view that economic and employment growth are the key drivers of reducing hardship.

Recent research also reported by the Treasury highlights the significant employment effects of the welfare system reforms of 1991. This research shows that the widening of the gap between income from employment and benefits increased labour force participation by two percentage points; increased total employment by 2.5 percentage points; reduced the unemployment rate (as defined in the Household Labour Force Survey) by 0.7 of a percentage point; and induced more young adults to participate in education and training.

Thus while some people were obviously out of poverty is to get a job, even at a low entry-level wage. Just over a quarter of people in the lowest 20 per cent of the wage and salary distribution move to a higher income group within a year. Moreover, the data suggest that people on low wages and salaries tend on average to receive larger proportionate increases in remuneration than those higher up the earnings distribution.

Thus New Zealand's experience provides strong confirmation of the view that modern unemployment is largely attributable to regulations which impede the functioning of labour markets. New Zealand’s experience provides strong confirmation of the view that modern unemployment is largely attributable to regulations which impede the functioning of labour markets.

New Zealand's unemployment problem. For New Zealand is an economic and social scourge (there are still some lame-brains who think employers benefit from a pool of unemployed); that the levels reached in the 1980s were a disgrace; and that restoring full employment is a wholly feasible objective.

For much of that time our arguments fell on deaf ears. Even Bill Birch, one of the architects of the ECA, could not see the unemployment rate falling below 7-8 per cent. The Department of Labour has been consistently too pessimistic with its unemployment forecasts, and the latest drop in the unemployment rate to 5.9 per cent again came as a surprise to most commentators. Lately we have been arguing that full employment—which probably means a measured unemployment rate of perhaps 1-2 per cent, because people are always joining or leaving the labour force or changing jobs—should be achievable by the year 2000. I suspect that most people still do not take that proposition seriously. Journalists seldom bother to report our efforts to promote such goals; they like to concentrate on issues that excite reaction. Yet, as the head of the Treasury in Australia has put it, unemployment is not inevitable—it is largely a matter of choice.

Other factors, of course, influence the operations of the labour market. The most important of these is the problem of the Employment Court, or more precisely the tangle created by the combination of the decisions taken in 1991 to enact statutory personal grievance procedures and to retain a specialist labour court.

These provisions of the ECA were a great mistake, as many of us argued at the time. The court has come to be known as the Unemployment Court, because it has manifestly kept New Zealand's rate of unemployment higher than it would otherwise have been. I would estimate conservatively that unemployment would be below 5 per cent by now were it not for these deficiencies in the ECA and the attitude of the courts to its administration.

A study by Charles Baird published by the Business Roundtable and the Employers Federation last year documented some of the consequences of the Court's rulings in the area of dismissals. It concluded that, on the basis of US experience, the results could include:

- a loss of between 19,000 and 47,000 jobs;
- a 7 per cent reduction in real wages paid to workers; and
- an 18 per cent decrease in the mean income received by households in the lowest income quintile.

Whatever the precise magnitudes, there is no question that unjustifiable dismissal laws are a tax on employment and that they mostly hurt workers and the unemployed—not owners of capital who, at least in the long run, can redirect it elsewhere, including overseas.

New Zealand will continue to make further inroads into unemployment only if it maintains sound economic, labour market and welfare policies, and improves them where possible. It will not do so if it gets diverted into palliatives such as so-called job-creation or work-for-the-doole schemes. Most of the existing Department of Labour schemes do nothing to increase total employment and, given today's much more favourable labour market, they should be scrapped. This is not to knock the thinking behind work-for-the-dole proposals: people should be strongly encouraged to move from welfare into work, and those receiving assistance from other taxpayers have a reciprocal obligation to become self-supporting wherever possible, whether they are on the dole or other benefits. It is simply that such thinking should be refocused back towards more fundamental labour market and welfare policy issues.

Note that since this speech was given, the unemployment rate in New Zealand has fallen to 6.4 per cent (1st Q 1997), while Australia's has risen to 8.8 per cent (May 1997).

Roger Kerr is Executive Director of the New Zealand Business Roundtable; this is an edited version of a speech given on 3 March 1997. The full text may be accessed at http://www.nbr.org.nz

IPA

REVIEW

JULY 1997

26
In this issue we shall look at more sites of interest on the World Wide Web, including a bookshop where you can purchase obscure hard-to-get free enterprise volumes, and another 'bookshop' where the entire inventory is free. And we shall go beyond the Web into an area where you don't merely sit and read, but where you can offer your own opinions, ask questions and receive expert views on just about any subject.

SPAM
No, I'm not talking about the famous Monty Python theme song, nor the slightly less famous tinned product. The word 'Spam' has a specific Internet meaning: advertising, particularly of the word 'Spam' has a specific Internet meaning: advertising, particularly of the unsolicited kind.

There is an odd tension on the Internet between free enterprise and, well, free enterprise. The proportion of regular Internet participants who are sympathetic to free enterprise appears to be markedly higher than in the general population. Yet the most common complaint is about spamming.

Nevertheless, I am here going to suggest that you invite some regular spamming.

Laissez Faire Books is based in San Francisco. A division of the US Center for Independent Thought, LFB maintains a large inventory of books devoted to economics, the environment, history, philosophy, law and politics—almost all from a free-market and freedom-oriented perspective. It is from here that you can obtain the latest US publications in such areas, as well as a wide selection of older works that are difficult to obtain in Australia.

LFB is a bookshop that one would intuitively think inconvenient for Australian shoppers. As it happens, this isn't so. LFB provides several means of ordering, including a secure Internet linkage through its Web page at:

http://www.laissezfaire.org

Most books are discounted below their list price, and even with postage the prices are competitive with prices in Australia. You will need a Visa or Mastercard.

And what has this to do with spamming? To keep up to date with new publications, send an email to:

booknews@laissezfaire.org

About once a week you will receive a brief book review from LFB on a new release.

DEMOCRACY IN AMERICA ...
AND OTHER CLASSICS

Have you ever had a hankering to read de Tocqueville's classic Democracy in America? How about all of H.G. Wells's work or Bellamy's Looking Backward from 2000 to 1887? If you have, where can you find them?

Electronic versions of these—and more than eight hundred other works—are available at no cost from:

http://promo.net/pg

This is the address of Project Gutenberg, which commenced in 1971 with the aim of making the text of classic books available to everyone. It started very slowly but its growth is now exponential, with 32 additional works being made available every month.

The scanning, typing and formatting is a voluntary effort by people all over the world. The Project's bottleneck is obtaining copyright clearances.

'Copyright' is the important word here. All but a handful of the books are long since out of copyright. I'm looking forward to the Orwell oeuvre appearing in a couple of years.

Project Gutenberg is aiming to have 10,000 books on line by the year 2000.

ANOTHER FRIEDMAN

Two influences brought me, at a tender age, to a free-market view of the world. The first was a radically free-market neighbour. The second was recommended by the first: the writings of Milton Friedman.

Milton Friedman swam against the intellectual tide of his time. His son, David, has gone much further. David Friedman is a leading theorist for what is known as the anarcho-capitalist strand of libertarianism. 'Hey, what's that?' you ask. In the United States, libertarianism is a fairly large movement: the Libertarian Party presidential nominee in the most recent election, Harry Browne, received around half a million votes. The majority of US libertarians favour a much smaller government, tightly constrained by the US Constitution's first ten amendments—the Bill of Rights. They are usually known as minarchists (for small government). A significant proportion of libertarians—the anarcho-capitalists (no government)—argue that all functions performed by government can be performed by private individuals forming consensual relationships. I'm not here to argue the point. But those interested in this thinking may care to check out David Friedman's Web site at:

http://www.best.com/~ddfri/
David Friedman is a Professor of Law at the Santa Clara University, as well as being appointed to the Economics Department. His most recent book is Hidden Order: The Economics of Everyday Life, published by HarperCollins; other books include The Machinery of Freedom (1971). Sample chapters from both, along with quite a number of interesting articles, are available on his page.

Interestingly, Professor Friedman's formal training is not in economics or law, but in chemistry and physics (PhD from the University of Chicago).

THE HAYEK-L MAILING LIST
Moving completely away from the World Wide Web, there are two Internet systems that much more interactive. And these are the oldest two systems: email mailing lists and Usenet newsgroups.

Because they are old (in Internet terms, anyway), they are not pretty. There are generally no pictures or sounds. But the wealth of information available through these media can surpass the Web. I will cover news groups in the next issue of the IPA Review.

A mailing list is accessed using your email program. It consists of two email addresses. One performs administrative functions, the other is the list itself. This is Hidden Order: The Economics of Everyday Life, published by HarperCollins; other books include The Machinery of Freedom (1971). Sample chapters from both, along with quite a number of interesting articles, are available on his page. To subscribe to HAYEK-L, the body of your message must contain just one line:

SUBSCRIBE HAYEK-L your full name

Generally you will never write to this address again, except perhaps to unsubscribe. Within the hour you will receive an acknowledgement of your subscription and a note on how to use the list. Doing so is straightforward. If you wish to ask a question or express a view, you simply write a normal email and send it to the list address, in this case:

listserv@maelstrom.stjohns.edu

This is a computerised email address. No person ever reads it. The computer acts on the commands contained in the body of the message (in this case—but with some 'list servers' the command must be in the subject of the message). To subscribe to HAYEK-L, the body of your message must contain just one line:

SUBSCRIBE HAYEK-L your full name

This is another computerised email receiver. What it does is send your message to every other subscriber of the list. Conversely, you will receive the mail sent to this address by every other subscriber.

So-called netiquette is important here. Whenever you subscribe to a mailing list, you are making a commitment to contribute. If you unsubscribe, it is automatic for forwarding announcements on websites. The volume of email seems to vary between one or two items per day, up to about twenty.

There are many publicly accessible mailing lists—thousands—covering every conceivable topic. If HAYEK-L doesn't appeal to you, go to:

http://www.neosoft.com/internet/pam1

which provides a comprehensive list of mailing lists, and includes search facilities to help you find something of interest.

HAYEK-L has around 275 subscribers from 35 countries, quite a few of them scholars with an interest in Hayek, including several authors of books on the man. The list is also used occasionally for forwarding announcements on international conferences on related subjects.

A new mailing list called HAYEK-L was launched in March this year with the following purpose:

The list is for scholars and others interested the ideas of Friedrich A. Hayek ... [and] welcomes contributions on any aspect of the full range of Hayek's contribution to contemporary scholarship.

To participate in a mailing list, you must subscribe to it. With all mailing lists I'm aware of, this is free. To subscribe, you send an email to the administrative address, in this case:

listserv@maelstrom.stjohns.edu

This is a computerised email address. No person ever reads it. The computer acts on the commands contained in the body of the message (in this case—but with some 'list servers' the command must be in the subject of the message). To subscribe to HAYEK-L, the body of your message must contain just one line:

SUBSCRIBE HAYEK-L your full name

Generally you will never write to this address again, except perhaps to unsubscribe. Within the hour you will receive an acknowledgement of your subscription and a note on how to use the list. Doing so is straightforward. If you wish to ask a question or express a view, you simply write a normal email and send it to the list address, in this case:

listserv@maelstrom.stjohns.edu

This is another computerised email receiver. What it does is send your message to every other subscriber of the list. Conversely, you will receive the mail sent to this address by every other subscriber.

So-called netiquette is important here. Whenever you subscribe to a mailing list, you are making a commitment to contribute. If you unsubscribe, it is automatic for forwarding announcements on websites. The volume of email seems to vary between one or two items per day, up to about twenty.

A new mailing list called HAYEK-L was launched in March this year with the following purpose:

The list is for scholars and others interested the ideas of Friedrich A. Hayek ... [and] welcomes contributions on any aspect of the full range of Hayek's contribution to contemporary scholarship.

To participate in a mailing list, you must subscribe to it. With all mailing lists I'm aware of, this is free. To subscribe, you send an email to the administrative address, in this case:

listserv@maelstrom.stjohns.edu

This is a computerised email address. No person ever reads it. The computer acts on the commands contained in the body of the message (in this case—but with some 'list servers' the command must be in the subject of the message). To subscribe to HAYEK-L, the body of your message must contain just one line:

SUBSCRIBE HAYEK-L your full name

Generally you will never write to this address again, except perhaps to unsubscribe. Within the hour you will receive an acknowledgement of your subscription and a note on how to use the list. Doing so is straightforward. If you wish to ask a question or express a view, you simply write a normal email and send it to the list address, in this case:

listserv@maelstrom.stjohns.edu

This is another computerised email receiver. What it does is send your message to every other subscriber of the list. Conversely, you will receive the mail sent to this address by every other subscriber.

So-called netiquette is important here. Whenever you subscribe to a mailing list, you are making a commitment to contribute. If you unsubscribe, it is automatic for forwarding announcements on websites. The volume of email seems to vary between one or two items per day, up to about twenty.

A new mailing list called HAYEK-L was launched in March this year with the following purpose:

The list is for scholars and others interested the ideas of Friedrich A. Hayek ... [and] welcomes contributions on any aspect of the full range of Hayek's contribution to contemporary scholarship.

To participate in a mailing list, you must subscribe to it. With all mailing lists I'm aware of, this is free. To subscribe, you send an email to the administrative address, in this case:

listserv@maelstrom.stjohns.edu

This is a computerised email address. No person ever reads it. The computer acts on the commands contained in the body of the message (in this case—but with some 'list servers' the command must be in the subject of the message). To subscribe to HAYEK-L, the body of your message must contain just one line:

SUBSCRIBE HAYEK-L your full name

Generally you will never write to this address again, except perhaps to unsubscribe. Within the hour you will receive an acknowledgement of your subscription and a note on how to use the list. Doing so is straightforward. If you wish to ask a question or express a view, you simply write a normal email and send it to the list address, in this case:

listserv@maelstrom.stjohns.edu

This is another computerised email receiver. What it does is send your message to every other subscriber of the list. Conversely, you will receive the mail sent to this address by every other subscriber.

So-called netiquette is important here. Whenever you subscribe to a mailing list, you are making a commitment to contribute. If you unsubscribe, it is automatic for forwarding announcements on websites. The volume of email seems to vary between one or two items per day, up to about twenty.

A new mailing list called HAYEK-L was launched in March this year with the following purpose:

The list is for scholars and others interested the ideas of Friedrich A. Hayek ... [and] welcomes contributions on any aspect of the full range of Hayek's contribution to contemporary scholarship.

To participate in a mailing list, you must subscribe to it. With all mailing lists I'm aware of, this is free. To subscribe, you send an email to the administrative address, in this case:

listserv@maelstrom.stjohns.edu

This is a computerised email address. No person ever reads it. The computer acts on the commands contained in the body of the message (in this case—but with some 'list servers' the command must be in the subject of the message). To subscribe to HAYEK-L, the body of your message must contain just one line:

SUBSCRIBE HAYEK-L your full name

Generally you will never write to this address again, except perhaps to unsubscribe. Within the hour you will receive an acknowledgement of your subscription and a note on how to use the list. Doing so is straightforward. If you wish to ask a question or express a view, you simply write a normal email and send it to the list address, in this case:

listserv@maelstrom.stjohns.edu

This is another computerised email receiver. What it does is send your message to every other subscriber of the list. Conversely, you will receive the mail sent to this address by every other subscriber.

So-called netiquette is important here. Whenever you subscribe to a mailing list, you are making a commitment to contribute. If you unsubscribe, it is automatic for forwarding announcements on websites. The volume of email seems to vary between one or two items per day, up to about twenty.

A new mailing list called HAYEK-L was launched in March this year with the following purpose:

The list is for scholars and others interested the ideas of Friedrich A. Hayek ... [and] welcomes contributions on any aspect of the full range of Hayek's contribution to contemporary scholarship.

To participate in a mailing list, you must subscribe to it. With all mailing lists I'm aware of, this is free. To subscribe, you send an email to the administrative address, in this case:

listserv@maelstrom.stjohns.edu

This is a computerised email address. No person ever reads it. The computer acts on the commands contained in the body of the message (in this case—but with some 'list servers' the command must be in the subject of the message). To subscribe to HAYEK-L, the body of your message must contain just one line:

SUBSCRIBE HAYEK-L your full name

Generally you will never write to this address again, except perhaps to unsubscribe. Within the hour you will receive an acknowledgement of your subscription and a note on how to use the list. Doing so is straightforward. If you wish to ask a question or express a view, you simply write a normal email and send it to the list address, in this case:

listserv@maelstrom.stjohns.edu

This is another computerised email receiver. What it does is send your message to every other subscriber of the list. Conversely, you will receive the mail sent to this address by every other subscriber.

So-called netiquette is important here. Whenever you subscribe to a mailing list, you are making a commitment to contribute. If you unsubscribe, it is automatic for forwarding announcements on websites. The volume of email seems to vary between one or two items per day, up to about twenty.
Book Reviews

More Equal Than Others

Roger Kimball reviews

The New Communitarianism and the Crisis of Modern Liberalism
by Bruce Frohnen
University Press of Kansas

At the end of his brief poem 'Flyer's Fall', Wallace Stevens evokes a 'dimension in which / We believe without belief, beyond belief'. Bruce Frohnen, a political speech-writer and former Senior Fellow at the Heritage Foundation, does not mention this poem by Stevens in his book about the intellectual and political movement known as communitarianism. But, in fact, the quoted snippet could have served as the epigraph for The New Communitarianism and the Crisis of Modern Liberalism. Believing not only without belief but also beyond belief— if belief were something that the truly enlightened could simultaneously entertain and yet transcend: some such aestheticizing attitude stands at the heart of communitarianism.

Indeed, one thinker closely identified with the communitarian movement, the sociologist Robert Bellah, did draw on Stevens's poem for the title of his 1970 collection of essays, Beyond Belief: Essays on religion in a post-traditional society. In a traditional society, religion, as the word's etymology suggests, aids in binding its adherents into a community of believers; commitment is not an 'option', like a choice of 'lifestyle': it is the price of membership in the community. In a post-traditional society—Bellah, of course, means our society—we make do with something less demanding but also distinctly less fulfilling. Community depends on tradition; a post-traditional society achieves the illusion of community, 'community' in quotation marks. Here religion no longer binds, it blinds: it demands the weather of the 1960s, its 'experiments in living'. Thus we find Robert Bellah celebrating the counter-culture's search for 'harmony with nature and one's own body, a more "feminine" and less dominating attitude toward one's self and others, an ability to accept feelings and emotions', etc.

Communitarians... want the social fruits of traditional moral and religious commitment without the tedious and often un-liberal content of those commitments

Cuomo, the former Governor of New York and a model communitarian, tacitly recognized this when he said that 'the most important thing in their lives will be their ability to believe in believing'.

'Communitarianism' is hardly a household word. On first encountering the term, many people think that it has something to do with the communes of the 1960s counter-culture. This is wrong, but not entirely wrong. 'Communitarianism' refers to a political theory as well as to a political movement. Both have intellectual and affective roots in the activism of the 1960s. Egalitarianism, for example, a watchword of the 1960s, is also a prominent feature of communitarianism; Frohnen tells us that Cuomo once summed up his political vision with the command—"Thou shalt not sin against equality.' Communitarianism also owes a lot to what we might call the emotional weather of the 1960s, its 'experiments in living'. Thus we find Robert Bellah celebrating the counter-culture's search for 'harmony with nature and one's own body, a more "feminine" and less dominating attitude toward one's self and others, an ability to accept feelings and emotions', etc.

Communitarianism is more than a minor intellectual curiosity, however: more than yet another neo-Rousseauian footnote in the long story of twentieth-century utopianism. It is also a political movement of considerable influence, not least in upper echelons of the Clinton Administration. William Galston, a former adviser to President Clinton, is an important proponent of the communitarian ethos. Then there is the sociologist Amitai Etzioni, whose book The Spirit of Community: Rights, responsibilities, and the communitarian agenda is one of communitarianism's pivotal documents. When it was published in 1993, Etzioni's book enjoyed a prominent place on President Clinton's desk. That many of Clinton's speeches have emphasized communitarian themes suggests that it also enjoyed a prominent place in his thinking. And Hillary Clinton's famous 'politics of meaning' speech, delivered at the University of Texas in 1993, offers both a good summary of communitarian attitudes and a classic sample of communitarian rhetoric: 'We need', the First Lady said on that occasion, 'a new politics of meaning. We need a new ethos of individual responsibility and caring. We need a new definition of civil society which answers the unanswerable questions posed by both the market forces and the governmental ones, as to how we can have a society that fills us up again and makes us feel that we are part of something bigger than ourselves.'

Frohnen's task in this brief but ambitious book is twofold. He seeks first to sketch the principal intellectual and rhetorical features of communitarianism, showing above all how it emerged as a distinctly 'progressive' response to certain spiritual deficiencies of liberalism. He does this by tracing communitarian themes in the work of writers and politicians from Etzioni, Bellah, Galston and Cuomo, to the historian Garry Wills, the Canadian social-artist Charles Taylor and (a slightly different case) the legal scholar Mary Ann Glendon. His second purpose is to criticize communitarianism, not so much for its goals as for its methods and presuppositions—which, Frohnen argues, consistently betray an arrogance and naive presumption that border on hubris.

It is a tricky business, and Frohnen must be congratulated for negotiating skillfully in difficult and often muddy waters. Like many others, conservatives and liberals alike, communitarians are aghast at the spectacle of moral decay that American society presents: soaring...
rates of divorce, illegitimacy, violence, drug use and teenage suicide are some conspicuous tokens of our social disintegration. What Frohnen describes as the 'noble goal' of communitarianism is 'to restore the broken foundations of our way of life.' To this end, communitarians attempt to reanimate the social virtues of co-operation and community that liberalism, with its emphasis on individual autonomy and self-reliance, tended to slight. In this sense, communitarianism, aiming to resuscitate virtue, is an effort 'to save liberalism from itself'.

It might seem hard to argue with this; there is a sense, as Frohnen notes, in which 'we are all communitarians' now. The problem is that the rhetoric of virtue does not always entail its reality. Sometimes, indeed, an abundance of the former impedes the achievement of the latter. Communitarians are quite right that there has been a crisis of virtue in liberal society. The question is whether communitarian prescriptions are part of the solution or only different aspects of the original problem. As Frohnen observes, 'the central question raised by the rediscovery of virtue may be whether social scientists and policy analysts are up to the job of pointing out how to regain it, or whether we must return to older standards rooted in religious tradition.'

Some wit once defined Unitarianism as the belief that there is one God at most. Communitarians are in an analogous position. They want the social fruits of traditional moral and religious commitment without the tedious and often un-liberal content of those commitments. One name for this position is 'civil religion', a phrase that if not actually invented by Robert Bellah, was certainly popularized by him. In a few words, civil religion is religion without transcendence. As Frohnen shows, 'the communitarian project is tied intimately to the liberal democratic civil religion'. Recognizing that liberalism without virtue is moribund, communitarians seek to bolster liberalism with a dose of vitamin T: Traditional Religion and Morality. But their relation to tradition is purely 'functionalist', as William Galston puts it: one tradition is as good as another, just so long as it has the pleasing effect of inducing feelings of community and virtue. Communitarians want the social 'cohesion' of small-town life without, in Bellah's words, the 'dangerously narrow conception of social justice' that results from 'committing oneself to small-town values.' Accordingly, communitarians 'leave for local citizens the appearance of community control, but it is a derivative control, one that can be overruled at any time by the true wielder of power and authority: the central government'.

It is tempting to see communitarianism as a form of moral relativism, but, as Frohnen shows, this isn't quite accurate. Communitarians tend to be relativist only about other cultures: Charles Taylor, for example, tirelessly invokes the liberal ideal of 'the equal value of different ways of being'—to the point, in fact, where he wonders whether we have any right to criticize the Islamic demand that Salman Rushdie be assassinated for publishing *The Satanic Verses*. But at bottom communitarianism has a very definite social, moral and political agenda. Just as it poaches on the authority of religion for essentially secular ends, so it clothes itself in the emancipationist rhetoric of relativism in order to pursue its noble goal, 'to save liberalism from itself'.

---

Re-education is by nature egalitarian. In any programme of re-education, a self-selected group of intellectuals asserts that it has the authority to decide what kind of character and beliefs everyone should have

---

sue a species of moral absolutism: the absolutism of someone convinced that he has a privileged access to virtue.

We can get a hint of what communitarianism in action looks like from a speech that President Clinton's Secretary of Health and Human Services, Donna Shalala, delivered in 1991 when she was chancellor of the University of Wisconsin. Imagining what a typical little girl named Renata would be thinking and learning in the year 2004, Secretary Shalala reports that 'Renata doesn't know any moms who don't work, but she knows lots of moms who are single. She knows some children who only live with their dads, and children who have two dads, or live with their mothers and their grandmothers. In her school books, there are lots of different kinds of friends and families.' After school, Renata goes to a city-run day care centre where 'sometimes, she and her best friend, Josh, play trucks, sometimes they play mommy and daddy, and Josh always puts the baby to bed and changes the diapers, just like his own dad does at home'. At Thanksgiving, 'Renata's teacher will tell a story about how people from Europe came to the United States, where the Indians lived. She will say 'It was just the same as if someone had come into your yard and taken all your toys and told you they weren't yours anymore.'

As Frohnen notes, Secretary Shalala acknowledged that the egalitarian paradise that she conjured up here will not materialize of its own accord but will come into being only because 'we made it our top priority in our communities and in our Congress'. Thus it is that, soon after taking office, the Clinton Administration proposed legislation to make sure that states and localities adopted 'gender-equitable and multicultural materials'. One result is the federal 'Goals 2000' Act, which would provide national standards for teaching history to encourage what Frohnen calls 'egalitarian character transformation'. Such legislation highlights an abiding paradox of communitarianism. As Frohnen observes, communitarians 'present themselves as defenders of equality, but this claim seems untenable in light of their desire to re-educate all of society. Re-education is by nature egalitarian. In any programme of re-education, a self-selected group of intellectuals asserts that it has the authority to decide what kind of character and beliefs everyone should have.' Everyone is equal, but some are more equal than others.

Communitarians adopt an instrumentalist attitude toward the values they seek to preserve—which is another way of saying that they do not, at bottom, recognize the authority of those values. They want the effects of traditional morality but not its limitations. The result is a debilitating sense of arbitrariness. As Bruce Frohnen shows, the irony of communitarianism is that it adherents, placing themselves beyond the beliefs they seek to foster, 'sap the sources of the communal feelings they crave'.

Roger Kimball is Managing Editor of the New Criterion and author of Temured Radicals: How Politics is Corrupting our Higher Education, 1990.

[Reprinted from the Times Literary Supplement, 17 January 1997]
Against All Reason?

Antonia Lehn reviews

Who Stole Feminism?
How Women Have Betrayed Women
by Christina Hoff Sommers
Simon & Schuster, $19.95

Have you listened to Beethoven lately? According to a feminist musicologist at the University of Minnesota, Professor Susan McClary, the first movement of Beethoven’s Ninth Symphony ‘... is one of the most horrifying movements in music ... damming up energy which finally explodes in the throttling, murderous rage of a rapist incapable of attaining release’.

This is one of many examples Sommers quotes in her book. Although there are chapters dealing with rape and rape research, which, like many other areas of feminist research, Sommers has found to be subject to faulty research methodology and the misuse of statistics, the book largely deals with the transformation and frightening changes feminists have effected in academia and in the bureaucracy.

Christina Hoff Sommers is Associate Professor of Philosophy at Clark University and this work is of a high scholarly standard. Well-argued and painstakingly referenced, it should be of interest to everyone as it expounds on the serious cultural changes some feminists work towards, with implications for all members of society.

Sommers skilfully unravels the change that commenced in the 1960s from splitting feminism from its original purpose of equality feminism to the now militantly activist gender, or gynocentric, feminism. The early American feminists of the mid-1800s wanted equality; the current gender feminists have been in the process of re-educating society through re-writing history (or herstory as some prefer to call it), by giving greater prominence to women (which the author calls filler feminism). An example of this is a high school history text giving more attention to a female nineteenth-century astronomer, Maria Mitchell, who discovered a comet, than to Albert Einstein.

Sommers quotes Simone de Beauvoir as an early advocate of such thoughts:

No woman should be authorised to stay at home to raise her children.

Society should be totally different.

Women should not have that choice, precisely because if there is such a choice, too many women will make that one.

From the original goals of equality, the wheel has turned to one of misinformation and seeking revenge. All too often misandry goes hand-in-hand with gender feminism, edging toward a world where men are seen as dispensable, and romantic love is frowned upon by feminist stalwarts such as Gloria Steinem.

This theme is all too present in Australia, as well. We see the evidence in David Williamson’s controversial play Dead White Males. A local example of marginalising men was the 1995 National Women’s Health Conference, federally funded, and sponsored by the ACT Government. While men were tolerated as delegates, they were excluded from presenting papers, despite the fact that many reputable researchers and practitioners in this field are male.

Sommers states that gynocentric feminists claim superiority over males, maintaining that the education system, together with philosophical theory and scientific methodology, are patriarchal. She illustrates this through quotations of absurdities such as ‘Knowledge was created as an act of aggression’ (Elisabeth Faye) and ‘Newton’s Principles of Mechanics could just as aptly be called Newton’s Rape Manual’ (Sandra Harding).

If women were to develop their own methodologies, then apparently intellectual debate would alter significantly. Ironically, they are placing themselves in danger of being labelled as stereotypical females, who have limited capacity for reason and logic, relying on feminine intuition instead. Logic and rationality are considered philocentric. Transformation feminist Elizabeth Minnich is quoted as stating that ‘the conceptions of rationality and intelligence are white, male creations’.

Sommers presents extreme examples of this, including:

The warlike terminology of immunology which focuses on ‘competition’, ‘inhibition’, and ‘invasion’ as major theories of how cells interact reflects a militaristic view of the world;

and, further:

it becomes evident that the inclusion of a feminist perspective leads to changes in models, experimental subjects, and interpretations of the data. These changes entail more inclusive, enriched theories compared to the traditional, restrictive, unicausal theories. (Sue Rosser)

A substantial proportion of the book deals with gender feminist penetration and, in many cases domination, of academia, the bureaucracy and the classroom. According to Sommers, many universities now screen academic applicants for their commitment to the feminist agenda. This sets the scenario for increasingly biased, anti-intellectual, pro-feminist curricula and pedagogy.

A journalist, Karen Lehrman, attended almost thirty classes of women’s studies programmes at four universities...
and reported as follows in *Mother Jones*:

In many classes discussions alternate between the personal and the political, with mere pit stops at the academic ... with the students' feelings and experiences valued as much as anything the professor or texts have to offer. A hundred years ago women were fighting ... to be educated like men; today, many women are content to get their feelings heard, their personal problems aired, their instincts and intuition respected.

There is only one blatant omission in this book: the concept of empowerment, widely used within female consciousness-raising and assisting especially victims of domestic violence, especially in this country, fails to get a mention.

**Logic and rationality are considered phallocentric.**

Transformation feminist Elizabeth Minnich is quoted as stating that 'the conceptions of rationality and intelligence are white, male creations'.

Empowerment has many faces: one of them is the popular practice of sexual harassment charges for minor social transgressions, often subsequently not proven by the courts. The net effect is surely a disempowerment as women have turned away from being powerful enough to handle such situations themselves. They are now encouraged to use the whole bureaucracy which the taxpayer supports: sexual harassment officers, the police, the courts, the list goes on. The now infamous saga of two female students at Melbourne University laying charges against the Master of Ormond College (the subject of Helen Garner's *The First Stone*) is a classic case in point.

Most human beings on this planet, many in developing countries struggling for their survival, wish to live a life in harmony with their fellow human beings. The early feminists got it right:

women need equality and in the first world countries have made tremendous progress toward achieving it. The world does not need to be told that men are waging a war against women: contemporary gender feminists are waging a war against men.

If anyone is still in doubt that gender feminists wish to deconstruct society and undermine long-standing moral, ethical and basic human spiritual values, then the following passage Sommers provides should remove that doubt: the gender feminist utopia described by University of Massachusetts philosopher Ann Ferguson:

> With the elimination of sex roles, and the disappearance, in an overpopulated world, of any biological need for sex to be associated with procreation, there would be no reason why such a society could not transcend sexual gender. It would no longer matter what biological sex individuals had. Love relationships, and the sexual relationships developing out of them, would be based on the individual meshing together of androgynous human beings.

Indeed a vision of a frightening new world, where there are no longer distinct men and women, children conceived out of love and raised in a family environment; the biological, evolutionary nature of things upturned.

Sommers' book is long overdue. If you do not believe that the education system is androcentric, that scientific theory and methodology are phallocentric and that individuals should be judged according to their gender, then do not bypass this important work.

### Three Cheers for Globalization

(continued from page 3)

and given the coming of age of the babyboomers, the timing could not be better.

Globalization provides firms and people with much greater choice over where they invest and save. High-tax nations, such as Australia, will increasingly be forced to choose between more competitive tax rates or watching business and savings go offshore.

Globalization is also putting pressure on governments to reduce taxes on personal income and goods and services. People are increasingly able to choose where they work and receive their remuneration. Although tax is not the only deciding factor as to where people work, it is an important one. As people and jobs become more mobile, countries with high personal taxes will increasingly find that they must either reduce taxes or watch their best and brightest drift offshore. Likewise, cyberspace is increasingly allowing consumers to go global, and for goods and services to flow across borders undetected by the taxman.

The net result will be lower overall taxes, which will reduce the ability of government to force taxpayers to pick up the tab for the babyboomers.

Globalization will lead particularly to lower taxes on savings, investment, human capital and risk-taking, which will not only help the babyboomers and other investors, but add to growth and jobs.

The impact of globalization on the unemployed and the underclass is more problematical and dependent on how their governments react.

If governments embrace globalization and economic freedom and lead rather than follow the process, then, as shown by recent experience in the US and New Zealand (see the articles by David Hale and Roger Kerr elsewhere in this issue), jobs will flourish and the underclass diminish. If, however, governments, or more accurately nations, resist and in the end are forced to follow the process, then the unskilled and less mobile will suffer.

Globalization will not lead to the demise of government or of the nation-state. Indeed, government will arguably be more important under globalization. What globalization is doing is giving people another means of fighting the excesses of government—and this can only be positive.

Antonia Lehn is a freelance writer, reviewer and translator, with a background in Statistics and Social Research

IPA

IPA
Recent IPA Publications

**Whither Labor?**
by Gary Johns

An examination by a former Labor minister of where the ALP went wrong and, as a result, what sorts of policies an opposition party needs to offer in the late 1990s to keep the Australian democratic political system competitive and healthy.
IPA Backgrounder, June 1997, $10.00.

**The Human Wrongs of Indigenous Rights**
by Ron Brunton

The UN Draft Declaration on Indigenous Rights could have enormous implications for Australia. This Backgrounder argues that the fundamental idea of indigenous rights is dangerous and misguided, and is likely to undermine the most powerful moral arguments that can be used to defend equity and tolerance.
IPA Backgrounder, February 1997, $8.00.

**Soaking The Poor: Discriminatory Taxation of Tobacco, Alcohol and Gambling**
by Alan Moran

Governments—in particular, State Governments—are heavily dependent upon the revenues generated by taxes on alcohol, tobacco and gambling. Consumption of these goods and services represents a high share of the income of the less well-off, but only a modest share of that of the more affluent. Because the tax rates are high, the title Soaking the Poor vividly describes their punishing effects on low-income earners. This paper critically examines the incidence and effects of these taxes and concludes that they need to be radically reformed, as part of a general reform of the tax system.
IPA Backgrounder (Tax Reform Project), December 1996, $10.00.

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

Accepting the widely-held view that Australia's taxation system is in utter disrepair, the authors argue that tax reform cannot be divorced from the reform of Federal-State fiscal relations. On one hand, the Commonwealth's dominance over most tax bases creates a tax cartel; on the other, the States are forced to rely on unsatisfactory and inefficient bases for their tax needs. This book—the first in a new and important series—gives compelling reasons for allowing the States back into income or consumption taxes, and demonstrates the benefits this would bring.
Current Issues (Tax Reform Project), September 1996, $16.95.

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

A critical examination of the currently fashionable explanations of Aboriginal disadvantage that were given legitimacy by the Royal Commission into Aboriginal Deaths in Custody. It is particularly critical of explanations that attribute Aboriginal disadvantage to the 'institutional racism' of Australian society. It argues that the ideas that underpin current approaches to Aboriginal policies are counterproductive.
Current Issues (first published February 1993, now re-issued in electronic form only, Windows-based), $15.00.

Please enrol me as a subscriber to:

- IPA Review Annually $28
- General Member Annually $50
- Premier Member Annually $190

Entitlements:
- All IPA publications (IPA Review, Current Issues, Backgrounder, In Touch)
- Membership card, notice of IPA events
- Premier Member: All IPA publications, IPA Review, Current Issues, Backgrounder, In Touch, membership card, notice of IPA events, plus discounts to all IPA functions

Name
Address
Postcode
Telephone:
Faxnumber
Payment Options
- I enclose my cheque for $ made payable to the Institute of Public Affairs.
- Charge my credit card $ (Bankcard, Mastercard, VISA, AMEX, Diners Club)

Number
Expiry Date
Cardholder's Name
Signature

Return this form and payment to: Institute of Public Affairs
128 Jolimont Road, Jolimont, VIC 3002
Telephone: (03) 9654 7499
Facsimile: (03) 9650 7627
Email: ipahayek@ozonline.com.au
enterprise (ˈentərprīz) n. 1. a project or undertaking, esp. one that requires boldness of effort. 2. participation in such projects, readiness to embark on new ventures; boldness and energy. 4. a company or firm.