

# Inside This Issue

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## ARTICLES & REGULAR FEATURES

- 2 [Editorial](#)  
One can understand why the Greens might tell porkies about the state of the Murray River—but why do otherwise respectable and responsible bodies join forces with them? **Mike Nahan**
- 4 [Where's the Data?](#)  
We are repeatedly told that Australia's waterways are seriously degraded or under threat. Yet no-one seems willing to answer the obvious question—where's the data to support the alarming claims? **Jennifer Marohasy**
- 7 ['BBC World' Calls 'Timber!' on Credibility](#)  
The BBC's appalling coverage of Tasmanian forest management has not gone unpunished—in England. Pity it's unlikely ever to happen here. **Andrew McIntyre**
- 8 [Protecting Superstition](#)  
Our system of intellectual property rights and patents may not be perfect, but in the long run it is far more valuable than protected 'traditional knowledge'. **Joe Kaplinsky**
- 10 [Baby Boomer Culture Gets its Comeuppance](#)  
The baby boomers seem to have had it pretty much their own way for a long time—until Generation Y started to flex its youthful muscles. **Bernard Salt**
- 12 [A Fatal Glitch in the IR 'Matrix'](#)  
NECA's current challenge to restrictive clauses in pattern agreements is more than just another IR stoush. **Gerard Boyce**
- 15 [What's A Job?](#)  
The increasing move towards commercial contracts in the workplace has the ILO in a quandary—and its proposed 'solutions' make manifest its confusion. **Ken Phillips**
- 16 [Chicken Little: The Green Threat to Progress](#)  
The perverse consequences of the Precautionary Principle can best be seen 'retrospectively'. Just imagine what we would not enjoy now if the Greens had prevailed in the past. **Andrew McIntyre**
- 18 [TCF Tariff Cuts: A Key Character Test](#)  
The Government needs to stand firm on TCF reform—not only for those involved in TCF industries, but for the economy as a whole. **Simon Ramsay**
- 19 [The IPA's Capacity to Manage Index Report 3: The Australian Automotive Industry](#)  
Examination of EBAs in another key industry reveals some troubling limitations on the capacity to manage.
- 22 [Free Enterprise.com](#)  
Gutenberg loosened the grip of the Church over the Word of God. Has the World Wide Web done the same for consumers of news and information? **Stephen Dawson**
- 24 [Don't Get Trapped by the Poverty Trap](#)  
Our welfare system is designed to provide a strong safety net, not a comfortable couch—and it's time we all realized what this entails. **Senator the Hon. Amanda Vanstone**
- 27 [Letter from London](#)  
PM Blair's proposed constitutional changes are probably overdue, but the manner in which they were presented and defended borders on farce. **John Nurick**
- 28 [Beyond Philanthropy Lies Compulsion](#)  
Increased calls for corporate social responsibility are little more than ambit claims which impose significant costs on corporations and the community alike. **Jim Hoggett**
- 30 [The Party's Over](#)  
The problems that Red Cross faced with its Bali Appeal demonstrated just how lax the disclosure requirements are for the NGO sector. **Don D'Cruz**
- 32 [Education Agenda](#)  
Victorian Education Minister Kosky's rhetoric is full of Blair-like reforms—but can she really deliver? **Kevin Donnelly**
- 33 [The 'R' Files](#)  
Muddying the arguments for free trade agreements with 'fair trade' considerations is counterproductive. **Alan Moran**
- 36 [Strange Times](#)  
The weird, the wacky and the wonderful from around the world. **Compiled by IPA staff and columnists**
- 37 [What's So Special About Universities?](#)  
The 'simple' solutions offered by both sides of politics for tertiary education overstate the 'problem'. **John Roskam**
- 38 [Further Afield](#)  
The dangers of organic foods, Iraq needs free enterprise, why public companies are going private, India takes less foreign aid, how the West grew rich.

## BOOK REVIEW

- 40 [Gary Johns reviews What's So Great About America](#)  
by Dinesh D'Souza.

## REVIEW

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# From the Editor

MIKE NAHAN

The Murray-Darling Basin is shaping up to be the next big environmental battleground.

Interest in the Murray River is neither new nor surprising. The Murray ranks with the Great Barrier Reef as one of the nation's most important environmental assets and has played a unique role in our economic, cultural and political life.

Historically, it has been perceived predominantly as an economic asset, to be harnessed for irrigating agriculture, generating electricity, fostering tourism and providing transport.

Accordingly, since European settlement, it has been radically changed to a 'working river'. Its natural flow, which was once highly irregular—alternately flooding a great deal of Victoria and then drying to a series of linked ponds—has been controlled with dams and weirs, benefiting boaters and anglers as well as agriculture. It now flows to the ocean, even in times of one-in-a-hundred year droughts such as have been experienced over the last few years. During such droughts, in its native state, the river would have stopped flowing at around Cahuna.

The Australian public's perception and values have now changed 180 degrees. Environmental values now dominate discourse. The demand is to return the river to a more natural state by taking water from agriculture to increase environmental flows.

The Council of Australian Governments plans to meet in October to decide not whether to increase environmental flows, but by



how much and over what time span.

In his 2003 Budget speech in reply, Simon Crean jumped on the save-the-Murray bandwagon, pledging to return 1,500 gegalitres to the environment. He made no mention of the impact that removing 20 per cent of irrigators' water would have on them and their communities. Nor did he mention compensation for the removal of these water rights. Even some Liberals have felt obliged to respond. Treasurer Costello recently threatened to penalize the States by withholding competition payments unless they embarked on reforms that included reducing irrigators' diversions for environmental flows. The farmers and the communities that they support are, at best, given passing notice.

The politicians are not alone. Indeed, it seems that everyone, like the proverbial Hanrahan, is chanting in unison, 'We'll all be rooned, before the year is out'.

What is going on? The Greens have apparently latched on to the River as another ecological icon to be saved from the destructive forces of modernity.

The Australian Conservation Foundation (ACF) under the leadership of Tim Fisher, their Water Campaigner, took the early lead. Together, they have done a truly remarkable job in convincing the public, in particular the great and the good, that the River and modern agriculture in general, are unsustainable. The ACF has become the 'representative stakeholder' on water issues to governments, research bodies, the farm lobby, philanthropic foundations and businesses. Mr Fisher has got himself ensconced on the Myer Foundation's water and environment committee, which gave \$677,700 in grants in 2002 to 25 NGOs—including the ACF—to help save the River and the land. Mr Fisher is on the board of the Land and Water Rural Research Development Corporation (LWRRDC) which, with \$24 million of mostly taxpayers' money, is the leading funding body of research on land and water issues. Considering that Mr Fisher has an Arts degree and no scientific or technical expertise in relevant areas, this is a significant feat.

One of the ACF's most influential ventures was the report *National Investment in Rural Landscapes*, published in 2000, jointly promoted with the National Farmers Federation and funded by the LWRRDC. Although this report dwelt generally on salinity, it focused heavily on the Murray, and claimed that the river was an ecological disaster. It sought \$65 billion over ten years to 'save' the Murray and transform the agricultural sector around Australia generally.

REVIEW

The ACF's arguments were subsequently rehashed in a study undertaken in a 2001 report, *Repairing the Country*, by the Allens Consulting Group, with guidance from ACF and funding from a range of banks and companies.

More recently, the World Wide Fund for Nature (WWF), under the guise of the Wentworth Group of Concerned Scientists, joined the campaign to save the River. It issued a report in late 2002 (critically examined by Alan Moran in the December 2002 issue of the *IPA Review*) which largely echoed ACF's chorus of gloom. All these reports were remarkably short on data and detail. They look and read like public relations documents.

Along the way, no-one has demanded that they justify their diagnosis. Indeed, few scientists or economists have, at least publicly, criticized the claims. Most interested parties, including sections of the farm lobby, CSIRO, bureaucrats and politicians, have followed the Green piper's tune as if in a trance.

One possible reason for the silence is the apparent lack of data. The body responsible for monitoring the health of the river, the Murray Darling Basin Commission (MDBC), has published limited hard data. Indeed, the first comprehensive audit of the River's ecological conditions is now under way. Moreover, the only pollutant for which there appear to be good data is salt.

The latest Report of the River Murray Scientific Panel on Environmental Flows states 'there is limited information upon which to make quantitative links between hydrology and the ecological health of the river and the floodplain...' and 'Knowledge of [the] species ecology is woefully defective in many key areas and is hampered by lack of historical information'.

If this is the case, what is the basis for the doom and gloom?

In this edition of the *Review*, scientist Jennifer Marohasy (*Where's the data?*, page 4)—who joined the IPA this month as Director of the Institute's Environment Unit—begins the task of examining the data behind the claims. The obstacles and difficulties she faced when conducting her search should be a cause for concern to anyone interested in the River, its communities and good public policy.

Not only do the data not support the received claims, they show that salinity in the River over the last two decades has actually improved—at least at Morgan (an important indicator site where Adelaide extracts its drinking water). The received data also bring into question the MDBC's own projections which suggest that while the River may have improved in recent years, it is set to deteriorate sharply.

Care must be taken in drawing conclusions on the basis of the available data. The data set is limited, and more might in fact be available in the deeper recesses of the MDBC and CSIRO. More and better data, it appears, will become available in the near future as a result of the audit currently under way.

Even so, the fact that the available data are at odds not only with public perceptions, but also with the pronouncements of official agencies and the experts, indicates that something is seriously amiss.

The gulf between belief and fact on this issue will not surprise the experienced observer. It is standard Green practice to manufacture problems to support their beliefs with a selective presentation of facts or, if necessary, no facts at all. The surprise lies with the apparent wholesale failure of the many groups involved—those on which we have come to rely to counter Green propaganda.

Why, for example, has the NFF—the nation's leading farmer lobby group—so willingly joined the ACF campaign? They know full well that the ACF is one of the most one-eyed critics of modern agriculture; it seeks to ban agricultural biotechnology—a technology which offers great potential for dealing with salinity issues—and has no respect for property rights.

Why would land and water scientists in LVRRDC and CSIRO embrace the ACF and WWF in such blind rapture? Although established to drum up funding for scientific research, the WWF has long taken an anti-scientific path.

I suspect that both the farmers and the scientists have succumbed to the promise of buckets of easy government money. The Greens' plan is to Europeanise the farm sector. This has great appeal to some farmers. It would mean not only large government subsidies, but an infinitely easier life, as there would be no need to worry about being more productive or attuned to heartless markets.

The Green plan for co-operative scientists is even more enticing. They, along with the Greens of course, are to be put in charge of the whole grand plan—deciding which activity is good and which is bad, overseeing land-use plans, allocating funding and levying fines, and of course deciding research funding.

But, co-operating with the Greens brings big risks. For the farmers, it means becoming totally dependent on government and Green largesse. For the scientists, it means, well, giving up being a scientist.

I suspect that the decision turns on whether the farmers and scientists believe that the Greens can deliver the billions of dollars promised.

IPA

# Where's the Data?

JENNIFER MAROHASY

The new Director of IPA's Environmental Unit asks for the evidence to support repeated claims of deteriorating water quality in Australia

**R**EPETITION of the simple message that we have a water quality problem in our rivers is a feature of two current high-profile environmental campaigns. The save the Great Barrier Reef and save the Murray River campaigns, both backed by the World Wide Fund for Nature (WWF), have been phenomenally successful. Recently, both sides of politics have sought to out-compete each other in their pledges to introduce new programmes that will save these Australian icons. A remarkable feature of both campaigns, however, is the lack of information provided to support this key message.

If the Reef and the Murray are facing an environmental catastrophe, then repetition of this key message from high-profile environmentalists is justified. If, however, the key message cannot be substantiated, then we are perhaps dealing with propagandists who are potentially duping the Australian public. Can the message shared by both the save the Reef and save the Murray campaigns—that deteriorating water quality is an established scientific fact—be supported by the available scientific evidence?

The preamble to the Wentworth Group's *Blueprint for a Living Continent* begins with the statement, 'Salinity and deteriorating water quality are seriously affecting the sustainability of Australia's agricultural production, the conservation of biological diversity and the viability of our infrastructure and regional communities'. The WWF Australia's *Great Barrier Reef Pollution Report Card*, launched in June 2001, also fo-

cuses on water quality and, in particular, on 'the effects of sediment and nutrients pouring out of our rivers'.

Key water quality indicators include turbidity (a measure of sediment load), total nitrogen (nutrient level) and electrical conductivity (saltiness). Australian State Governments have measured and recorded these indicators for our major river systems for many decades and stored the information in large databases. These values should be regularly compared against national guidelines that have been developed for drinking water, aquatic ecology and irrigation. According to the *Australian Water Resources Assessment 2000*, we spend \$142–\$168 million each year on water quality monitoring.

Trends with respect to water quality could be easily established by plotting the values for the indicators (for example, saltiness) for particular sites (for instance, Morgan, SA) over time (for example, 1988–1998). If water quality is deteriorating, then the graph will generally resemble a high performing super fund—that is, the plot will show an increase over time.

I first requested information on water quality for rivers in Great Barrier Reef (GBR) catchments in 1999. The information was not easy to access, but I persisted and eventually succeeded in not only seeing the data, but also getting government to publish a limited-edition water quality report for eight key indicators at 18 sites in 12 catchments for two five-year periods. This report (*Water quality report for catchments containing sugar cane in Queensland, 1<sup>st</sup> May 1995–30<sup>th</sup> April 2000*) presents the best available data on water quality

in GBR catchments for recent years. The graphs show there are seasonal trends for some indicators for some catchments, but no long-term trend of improvement or deterioration.

The Queensland Government should have made this information generally available on a Website. Instead, in both January and May 2003, Premier Beattie declared that water quality was deteriorating to the extent that there has been 'a fourfold increase in sediments and nutrients discharge (from agriculture) into the reef waters over the past 15 years'. This is consistent with the WWF's assertion that sediment and nutrient loads are 'pouring out of our rivers'. However, I have been unable to establish the basis for the Premier's assertion and this information is difficult to reconcile given the significant improvements in on-farm environmental management, including the adoption of precision farming and minimum tillage techniques, over the last 15 years in GBR catchments.

The message from government and WWF with respect to deteriorating water quality in GBR catchments appears to be pure propaganda. Interestingly, my inquiries to government regarding the assertion that there has been a 4-fold increase in 15 years have been met with the allegation that I am 'in denial' ('psychological contagion' is a known propaganda tactic—a component of the rule of unanimity).

Even the recent 415-page Productivity Commission Research Report, *Industries, Land Use and Water Quality in the Great Barrier Reef Catchment* contains much rhetoric about deteriorating water quality but, incred-

ibly, absolutely no water quality trend data. When the first draft of the report was released for public comment, I asked one of the Melbourne-based research officers why the Queensland Government's water quality trend data was not included in the report. He replied that 'the data is not useful'. Information that contradicts the position of the propagandists is certainly not useful information.

I recently searched for water quality data for the Murray River, in particular, for graphs with trend lines that showed the deterioration in water quality as repeatedly reported in the media over the last year.

The Murray Darling Basin Commission Website is huge, but after several hours of searching I could find no graphs showing trends for turbidity (sediment loads) or total nitrogen (nutrient levels) for any localities.

I did download a report on the *Salinity and Drainage Strategy—Ten Years On, 1999*. The report that was published in 1999 shows recorded salinity levels at Morgan in South Australia from 1920 to 1999. Morgan is a key locality just upstream of the pipeline off-takes for Adelaide's water supply and its use as an indicator site emphasizes the relative im-

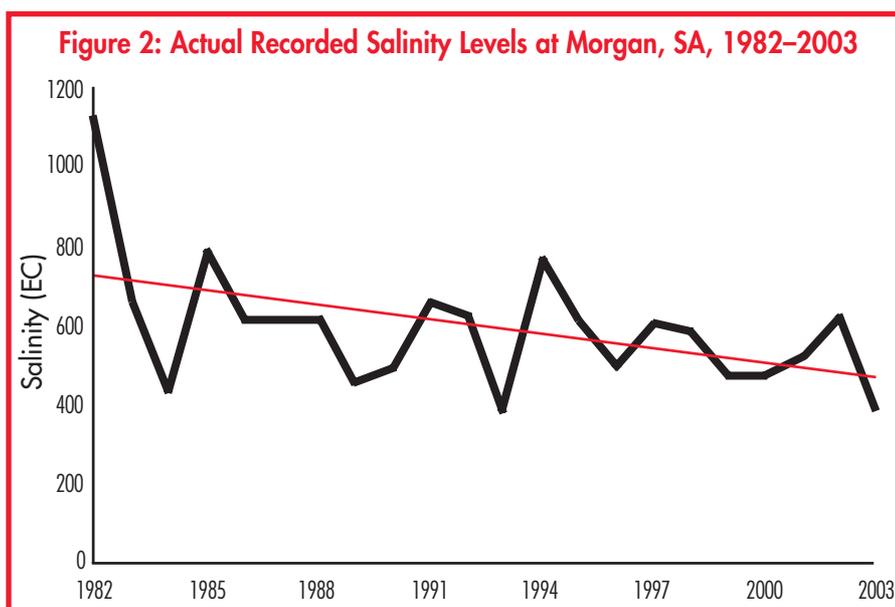
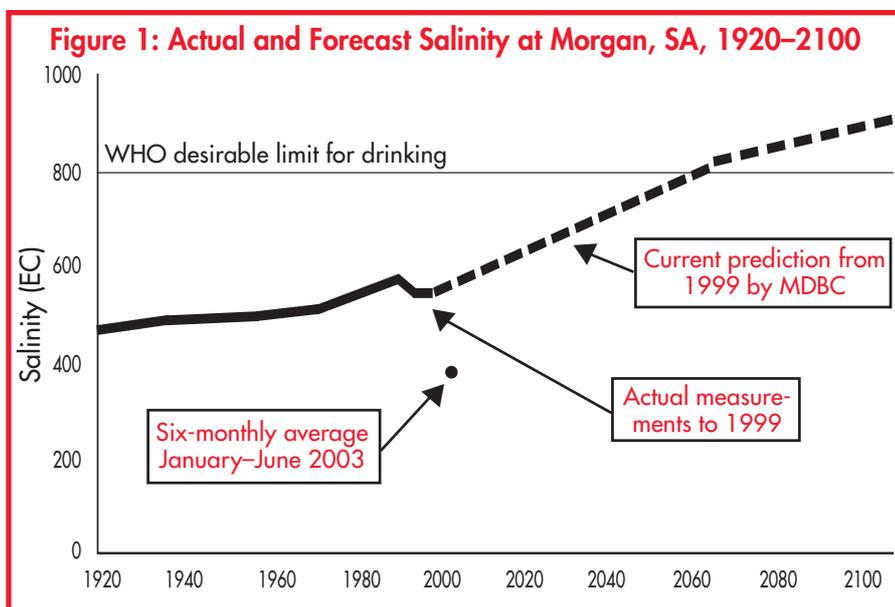
portance of river salinity impacts on all water users in the system.

According to the report, the trend line for recorded levels shows that an increase in salinity levels in the late 1970s was followed by a drop in salinity levels from the late 1980s through to publication of the report in 1999 (Figure 1). The improvement is attributed to salt interception schemes developed as part of the ten-year drainage strategy. The preamble to the report clearly states, 'The (Salinity and Drainage) Strategy has achieved a net reduction in River Murray salinity without jeopardising the undertakings of land protection works, new irrigation and water resource developments in three States'.

Interestingly, the same graph then shows the trend line sharply increasing after 1999, that is, the prediction is that salinity levels will increase after the Drainage Strategy. The report does not explain which model was used to generate this prediction of deteriorating water quality. It simply comments that, 'in future the increase in river salinity is expected to be mainly due to increased salt contribution from dry-land areas and pre-strategy irrigation development'. Why would salinity levels increase given that the interception schemes will stay in place and additional programmes to further improve water quality will be brought on line?

It is now nearly five years since the Drainage Strategy was published. Following an e-mail request to the Murray Darling Basin Commission (MDBC), I recently received a table of average yearly values for salinity at Morgan. I plotted these values for the last 20 years (Figure 2). From this graph it is clear that the trend of reducing salinity levels has continued. Water quality is improving at Morgan.

Large quantities of salt have always entered the Murray River from seepage of saline groundwater. The largest increases are usually noticed during low flow periods—for ex-



ample, during drought. Given the current extended drought across the basin, the trend of improving water quality at Morgan is remarkable. The extent of the improvement, and the extent to which the MDBC model's prediction is wrong, are evident when the average for the last six months (389 EC Units) is plotted against the prediction (Figure 1). Why isn't this good news story being reported?

At which sites has there been deterioration in water quality along the Murray River? Ticky Fullerton's acclaimed book *Watershed* laments deteriorating water quality in the Murray, but provides no water quality data to support the rhetoric. Early in May 2003, I received the new CSIRO *Land and Water Corporate Profile* with a letter from John Williams (a member of the Wentworth group). On the Website mentioned in the letter it states, 'Salt levels are rising in almost all of the (Murray Darling) Basin's rivers'. But again there are no accompanying data to support this simple message.

In his book *Europe—A History* Norman Davies writes, 'To be most effective, propaganda needs the help of censorship. Within a sealed informational arena, it can mobilize all means of communication and press its claims to maximum advantage. Propaganda is the antithesis of all honest education and information.' Could this explain why the aforementioned texts, reports and Websites, which purport to concern themselves with water quality, fail to present basic up-to-date information on water quality; is it that the real science, the real data, does not support the key message—the propaganda?

The Murray is an ancient river system with sedimentary material that has accumulated over the last 65 million years. Since European settlement, the most significant change to water quality is thought to be an increased sediment input from the early years of land clearing and the introduction of sheep, cattle and rabbits.

As a result of improved management practices over recent decades, erosion is likely to have stabilized or reduced to pre-European levels. 'New sediment' can take decades to move through a naturally sluggish river such as the Murray because of its low relief and low rainfall. Nevertheless turbidity levels (sediment load), in the absence of actual measurements, may just as well have reduced over the last 30 years.

The WWF-backed Reef and Murray campaigns share 'deteriorating water quality' as a key message. But perhaps the real issue is whether indicators meet national water quality standards?

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**We expect graphs  
with trend lines  
from our super fund  
managers—we  
should demand as  
much when we are  
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that water quality  
is deteriorating**

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Two years ago the National Land and Water Resources Audit published a 160-page *Australian Water Resources Assessment 2000*. It appears like a big report card—a catchment-by-catchment assessment of water quality concluding that we have lots of 'major (water quality) issues'—in other words, D grades for water quality. Trying to understand what contributes to the bad marks, however, is not so easy. Incredibly, this national report does not use the nationally recognized ANZECC water quality guidelines. Instead, median,

average and 90<sup>th</sup> percentile values for different localities have been variously combined and it is unclear for which periods (last decade or last year) and flow conditions (floods or droughts). Without presenting a single trend line for any water quality indicator, the report states, '*The Australian Water Resources Assessment 2000* provides the first overview of Australia's declining surface water quality with salinity, nutrients and turbidity issues revealed across most of the intensively used basins'. No it doesn't. It is just more propaganda.

Concern for the environment has emerged as a key ideology, almost a religion. It is apparent that scientists in positions of power are seeking to give the ideology standing by invoking the authority of science to support key messages. That this rhetoric, these messages, in some critical instances cannot be supported by the available data lays these high-profile environmentalists open to the accusation that they are more about propaganda than the provision of honest education and information.

According to the Australian Journalists' Association's Code of Ethics, respect for truth and the public's right to information are fundamental principles of journalism, along with not allowing any personal interest, or any belief or commitment to undermine the accuracy, fairness or independence of the reporting. Are Australian journalists too naive to recognize the absence of critical information when familiar messages are repeated by leading environmentalists? Journalists seem to expect facts and figures from economists, but not from leading environmentalists. We expect graphs with trend lines from our super fund managers—we should demand as much when we are told water quality is deteriorating.

*Dr Jennifer Marohasy is the new Director of the IPA's Environmental Unit. She was Environment Manager with Queensland Canegrowers Organization Ltd from 1997 to June 2003.*

**IPA**

**REVIEW**

# 'BBC World' Calls 'Timber!' on Credibility

ANDREW MCINTYRE

It seems that small victories are possible against media bias—at least in the UK.

**O**N 5 July 2002, BBC World broadcast *Earth Report: Paper Tiger*, a documentary on the effects of logging in Tasmania. As one would expect, it was a standard propaganda piece, with all the bias one has come to associate with environmental documentaries.

The programme made a number of claims about Tasmania and its forestry industry which it failed to examine or to test. With the editing, there were numerous instances where the vision and the commentary deliberately gave false impressions or where there were repeated errors from previous reports. The programme also dismissed both the efforts of professionals in Tasmania to conserve biological diversity and the published scientific reports confirming the industry's sustainability.

After the broadcast, Mr Barry Chipman, Tasmanian State Coordinator of Timber Communities Australia Limited (TCA)—a body representing families and individuals that work in and depend upon Tasmania's forest industries—complained to the Broadcasting Standards Commission (BSC) in Britain that they had been treated unfairly and unjustly in the programme.

As a result of this formal complaint, the BBC was forced to acknowledge internationally that it broadcast an 'exaggerated', 'misleading', 'inaccurate' and 'unfair' TV documentary about Tasmania's forests. The BSC handed down a 3,500-word ruling on the matter, and BBC

World was obliged to publish a 386-word summary of the findings in the *London Times*. It also had to screen a one-and-a-half-minute television summary of the BSC's findings at the completion of their *Earth Report* programme for 5 days from June 3 this year.

Effectively, the Broadcasting Standards Commission found that the programme had misled viewers. It had 'ignored evidence provided by TCA that Tasmania has 40 per cent of its total land and its forests protected in reserves, with 67 per cent of its rainforest and 95 per cent of its high quality wilderness fully protected on public land'. Nevertheless, and undeterred, the programme compared the land clearance rate with that of 'a poverty-stricken tropical forest nation', deliberately resulting, according to the Commission, in an 'exaggerated portrayal of the extent to which rainforest in Tasmania was exposed to logging'. The ruling also determined that the BBC's claim 'that the Styx was the last stronghold of the *Eucalyptus regnans* involved some gilding of the lily'. It agreed with Chipman that the BBC had inserted 'footage of a burrowing crayfish without on-screen acknowledgement that it was archival, into footage of a harvested coupe, so that it appeared that the crayfish's habitat was in the middle of a clear felled forest site', and it disagreed with the BBC's assertion that the Forest Practices Board 'was run by the timber interests to administer the self-regulating code of practices'.

In effect, the BSC's finding not only vindicated the TCA and the people who depend for their livelihood on the sustainable management of Tasmania's forests, but also those involved in the sound management of forests generally.

Because green advocates seem not to be able to help themselves but be biased in documentaries on environmental issues, the TCA had become an unwilling victim in a war that should not be taking place. Mr Chipman observed, 'This is a battle we would have preferred not to have fought. We believe the media should be fair and balanced in the first place. Journalistic codes of practice ask for journalists to deal in the truth, not just rehashing the lines from green Spin Doctors, based on personal opinion'. Experienced and twice bitten observers of the media know, however, that pigs don't fly.

But at least in Great Britain common sense appears to prevail from time to time. Would that Australia had such a commission to deal with our ('theirs' really) ABC. In this case, the complaint process was not easy, and involved a long battle through the office of the Commission. But the idea of our ABC having to publicly and repeatedly tell us on Channel 2 that 'sorry viewers, we got it wrong' would be delicious. But then, saying sorry, as the ABC has often observed, is not an easy thing to do.

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

**I P A**

# Protecting Superstition

JOE KAPLINSKY

Intellectual property is often seen as a major problem for the developing world.

**A**IDS drugs patents held by Western pharmaceutical companies are criticized for preventing cheap access. Intellectual property rights in agriculture, especially over genetically modified plants, are seen as a barrier to food security for poor farmers in the developing world.

Anti-globalization activists have targeted the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) as the most sinister wing of World Trade Organisation (WTO) negotiations.

Many argue that the inequalities of the intellectual property system could be rectified by giving 'traditional' or 'indigenous' knowledge more protection. But these proposals can result in a romanticization of rural poverty and the blocking of economic and scientific development—and as such, are potentially more damaging for the developing world than the expansion of intellectual property itself.

Critics often claim that traditional knowledge is being stolen through 'biopiracy'—for example, when Western companies patent uses of plants that are well known to indigenous peoples. The critics support the Convention on Biological Diversity (CBD) against the WTO's TRIPS. According to the Third World Network (TWN) 'one of the main objectives of establishing the CBD was to counter the possibility of misappropriation or "biopiracy", while one of the effects of TRIPS has been to enable the practice of such misappropriation'.<sup>1</sup>

There are certainly problems with the current intellectual property regime. But these are about the fact that intellectual property may prevent developing countries' access to the most

modern and up-to-date solutions, rather than its failure to protect 'traditional practices'.

The UK government recently commissioned a report called 'Integrating Intellectual Property Rights and Development Policy', which pointed out that there is a tendency for patents today to be filed and granted more widely than in the past. This leads to the possibility of gridlock in developing countries, as permission from many overlapping patent holders will be needed to make even incremental advances.<sup>2</sup>

And the Intellectual Property Rights Commission notes that there is a conflict of interest between the developed and developing worlds. Since most intellectual property is held by the developed world, it makes little sense for the developing world to implement tighter intellectual property laws. On the other hand, a modern capitalist economy requires protection for intellectual property. So, any country that wants to develop needs to find a difficult balance.

The debate about intellectual property is blurred by hype about the 'knowledge economy', which accords intellectual property a more central economic role than it deserves. It is often forgotten that intellectual property is only an idea that can be applied in economic production, rather than economic production itself (businesses that assumed that DNA patents would be goldmines are now realizing this).

## **TRADITIONAL KNOWLEDGE HAS NO VALUE TO SCIENCE OUTSIDE OF ANTHROPOLOGY**

There is also a fetishization of traditional knowledge on part of intellectual property's critics. On this basis, it might be claimed, for example, that

the British Empire was built on the 'biopiracy' of scientists such as Sir Joseph Banks (1743-1820), who travelled with Captain Cook and founded the Royal Botanic Gardens at Kew; Robert Fortune (1812-80), who introduced varieties of tea from China into India; and Sir Joseph Dalton Hooker (1817-1911), who supervised the export of rubber trees from Brazil to Ceylon, Singapore and Malaya.

But the wealth that flowed back to Britain was not somehow stolen from the various peoples around the world who first cultivated or knew of the crops. It was a product of a worldwide division of labour that mobilized millions of people on plantations and farms.

Nicolas Gorjestani, the Africa region's chief knowledge officer at the World Bank, makes a similar mistake when talking about the indigenous knowledge of today. For Gorjestani, indigenous knowledge 'is a key element of the social capital of the poor and constitutes their main asset in their efforts to gain control of their own lives'. He argues that new forms of intellectual property protection are needed, because the 'normal criteria for patenting a process do not exist with IK [indigenous knowledge]'.<sup>3</sup>

But in reality, traditional knowledge has no value to science outside of anthropology—because it essentially consists of what might be otherwise called old wives' tales. On its own terms, traditional knowledge has even less value to industry, and is incapable of forming a basis for development. In practice, therefore, the promotion of 'traditional knowledge' puts up a barrier for the developing world.

One example of how this can happen is the law of Prior Informed Consent. This law, which is incorporated

into treaties such as the Convention on Biological Diversity and the International Treaty on Plant Genetic Resources, holds that before a product based on plant (or other) genetic material from the developing world is commercialized, or even researched, consent is required not only from the government but also from any indigenous people who have traditionally used those plants or live in the area.

Furthermore, traditional users are given a veto over whether development goes ahead. They can either stop developments that are judged to be destructive of traditional ways of life, or—perhaps more positively—can get a share of the wealth generated from their natural resources or traditional knowledge.

This is very different from the forms of intellectual property developed by industrialized countries. The idea behind a patent is that there is a trade-off: there is a temporary restriction on the commercial development of technology, but in order to get a patent you must teach the world something new. To get a patent on an invention you must openly publish how your invention works, and how it may be used.

The idea is that the patent system will encourage a free flow of knowledge that contributes more to innovation in the long run than temporary monopolies will hold it back. In practice, of course, things can be less rosy. But that, at least, is the ideal.

In the case of Prior Informed Consent, by contrast, the monopoly granted is not temporary, but permanent. Rather than aiming to teach the world something new, it is designed to conserve traditions that are passed down from generation to generation. It therefore acts as a block on knowledge rather than an encouragement to innovation.

## **SCIENTIFIC WORK IS BEING DELAYED**

Under the patent system, a temporary monopoly is granted to private interests in order that we all share in the longer run. Giving indigenous people

a veto over the use of biodiversity, meanwhile, fixes knowledge as the property of one particular group, and ties people to their traditional roles.

The protection of traditional knowledge is obstructing the advance of scientific knowledge that is essential for progress in both the developing and the developed world. Furthermore, the elevation of traditional knowledge encourages a suspicion of science and the motivation of scientists.

For example, Dr Ricardo Callejas, professor at the University of Antioquia, Colombia, has worked on the taxonomy of the 2000 species in the black pepper family, research that promoters of biodiversity might be ex-

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**...to get a patent you  
must teach the world  
something new. To get  
a patent on an  
invention you must  
openly publish how  
your invention works,  
and how it may be used**

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pected to support. Yet Dr Callejas and his students have been accused of 'biopiracy', and faced restrictions on their work. 'If you request a permit', he told the New York Times, 'you have to provide coordinates for all the sites to be visited and have to have approval from all the communities that live in those areas. Otherwise, go back to your home and watch on Discovery Channel the exciting program on Dinosaurs from Argentina'.<sup>4</sup>

Scientific work is being delayed or blocked, and scientists are becoming demoralized. 'I have trouble convincing my closest friends that what I do is because of passion, curiosity, a desire to know more about a group of organisms', says Dr Callejas.

All in all, moves to protect 'traditional knowledge' are a disaster for development. Their logical conclusion can be seen in projects such as the Tanga AIDS Working Group (TAWG) in Tanzania, which provides support for people with HIV/AIDS through local community networks. This has been promoted as a flagship project, funded by the World Bank, OXFAM and USAID, for its work integrating 'traditional healers' with modern medicine. Instead of modern AIDS drugs, patients are treated with 'traditional' plant remedies.

The real problem is, of course, that AIDS drugs are too expensive. But instead of confronting this problem, resources have gone into ensuring that traditional healers are treated on a par with medical professionals. One article on TAWG concludes that perhaps modern drugs are not worth having after all: 'expensive new therapies, by the way, often lose their knockout punch over time. Hence, treating patients with traditional medicines has as much validity now as it did thousands of years ago.'<sup>5</sup>

Seeing virtue in useless herbs used by desperate people with no alternative is a sad conclusion for a campaign that should be demanding the best for Africa.

## **NOTES**

- 1 Intellectual property rights, TRIPS Agreement and the CBD.
- 2 Integrating Intellectual Property Rights and Development, Commission on Intellectual Property Rights.
- 3 See 'Indigenous knowledge for development', by Nicolas Gorjestani.
- 4 'Biologists Sought a Treaty; Now They Fault It', Andrew C Revkin, New York Times, 7 May 2002.
- 5 'The Ancient and Modern Worlds Unite to Fight HIV/AIDS in Tanga, Tanzania', David Scheinman, Science in Africa, September 2002.

*Joe Kaplinsky is a patent and technology analyst.  
This article was extracted from 'spiked' at  
[www.spiked-online.com](http://www.spiked-online.com).*

**I P A**

# Baby Boomer Culture Gets its Comeuppance

BERNARD SALT

The values from the thirty-year monopoly of the baby boomers may be finally coming to an end. It is called Generation Y. The *IPA Review* wonders if this is the beginning of the demise of the chattering classes?

**T**HE baby boom generation has been the defining force in Australian popular culture for three decades. But why? You are a baby boomer if you were born between 1946 and 1961 and you are currently aged between 42 and 57 years. Baby boomers are followed by generation X, born over the 15 years to 1976 and who in turn are followed by Generation Y, born over the 15 years to 1991. The *New Yorker* first used the term 'baby boomer' in 1979; Douglas Coupland invented Generation X as the title of his 1992 book. As for Ys, they are so named for no reason other than the fact that they follow Xers; therefore they must be Ys.

But why the dominance of the boomers? After all, there are more Xers (4.4 million at June 2001) than boomers (4.1 million). Part of the reason for this cultural dominance of boomers is the 'stepped difference' between their number, and the number of pre-boomers (2.5 million) born between 1931 and 1946. Whatever housing, shops, schools and factories were created to service the pre-boomers had to be upped by 64 per cent to accommodate the avalanche of boomers.

However, the infrastructure that was created to service the boomers had to be increased by only 10 per cent to accommodate the Xers. For this reason, boomers have been—and will remain—the leading cultural force within the Australian mass market. But the influence of

boomers goes well beyond their demand for services. As 20-somethings in the late 1960s, they changed fashion: the 'mop top' Beatles and long-haired hippies were at the forefront of social change. Indeed long hair remained in fashion for a quarter of a century after San Francisco's 1967 *Summer of Love* which introduced hippiedom into popular culture. But

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**Whatever housing, shops, schools and factories were created to service the pre-boomers had to be upped by 64 per cent to accommodate the avalanche of boomers**

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by the mid-1990s male baby boomers, then aged between 35 and 50, were confronted with thinning hair. The boomer response? Shave it all off and make popular the big No. 1 haircut. At the same time, the fashion colour 'black' seemed to gain ascendancy and was much favoured by middle-aged boomers. Part of the reason, I suspect, is that black is a

slimming colour and it 'just seemed to look right' on 'heavy' baby boomers.

Chic 40-something men were suddenly shaving their heads and wearing black as a fashion response to a thinning pate and a spreading waistline, although this 'look' transcended middle-aged boomers, and was adopted by über-chic Xers. It is not at all uncommon to see a 30-something male dressed in black and with a No. 1 haircut—even if there are no signs of either receding hairline or spreading girth. The point being that this fashion trend, forged of necessity by boomers, was adopted by Xers—totally complicit to this middle-aged fashion conspiracy.

But how lucky are the boomers? As they age, they change fashion to disguise the decline of their bodies. Boomers were less kind to their elders in the late 1960s: long hair, shabby clothing and beards were part of a uniform that defined 'their generation' as being quite different to the preceding generation. John Lennon confirmed this intergenerational divide when, at the age of 28 in 1968, he declared 'Don't trust anyone over 30!' Three decades on and the boomers have shifted the goal posts with a new refrain: '40 is the new 30'. All of this was travelling along quite nicely until the turn of the century when, out of left field, came Generation Y—the children of the baby boomers. This lot now comprises the nation's teenagers and young adults.

**REVIEW**

Ys have rejected baby-boomer denim and replaced this with canvas; they have also rejected baby boomer brands and embraced their own labels such as Globe, Fubu, Billabong, Mooks and Stussy. Generation Y has not only rejected boomer culture and fashion, they are celebrating their time in life. Over the last 12 months, Generation Y teenage girls have evolved a fashion look that is quintessentially 'young'. The midriff is exposed and jeans are lowered to sit squarely—and precariously—on the widest part of the hips. The reason why this look is fashionable is that it cannot be copied by a 45-year old baby boomer woman. Or to put it more accurately: this look *should not* be copied by a 45-year-old baby boomer woman.

It is part of Y's rejection of boomer's middle age. It screams: 'I'm young and slim and you're not'. The low-cut jeans look is much more than mere 'youthful fashion'; it has been carefully engineered, by a process of Darwinian evolution, to accentuate and celebrate youth.

Can this be the beginning of a new youth revolution? Popular culture has been relatively free of intergenerational bickering for some decades. The proposition is that baby boomers have determined both the popular culture and mass-market agenda for three decades. They have been able to achieve this positioning because of their number relative to the number of people in the preceding generation. And boomers will continue to be a powerful consumer force for some time yet. The youngest baby boomer will not pass beyond superannuation age of 55 until 2016. Most boomers are currently at the peak of their life-time earning power, although as they approach and pass into their 50s they will increasingly embrace the concept of stepping-back: 'perhaps do a bit of a sea change'.

This is not retirement: 'retirement is for old people' they will argue. Although they will, they must, wind down over the balance of this

decade. And as they do so, they will underpin demand for lifestyle residential property. They will embrace the concept of 'work-life balance'; they will be attuned to marketing concepts such as 'looking after yourself': day spas; looking good; staying fit; investing in their relationships. I also argue that the boomer will actually embrace religion as they suddenly realize the dreadful truth that they are not immortal.

But, boomers being boomers, they will do it differently: possibly this innate desire to 'make peace with their maker' will find expression in

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an embrace of what they will term 'spiritualism'. This ascendant interest and concern for 'repairing the damage' extends neatly into the pharmaceutical industry: nicotine patches; weight loss; cosmetic surgery/dentistry; looking good by clinging, perhaps, to the last vestiges of youth; and ... Viagra! (Oddly enough, baby boomers demanded, and got, the female contraceptive pill as they approached puberty in the early 1960s.)

The property industry will be directly affected by boomers' search for lifestyle residential property within a 90-minute commute of a capital city. Generation Y, on the other hand, encouraged by their boomer parents, will continue to delay mar-

riage—and will continue to follow fashion that celebrates their youth—and either remain in the family home until their mid-20s or move into an inner-city apartment. This, too, is a rejection of boomer culture. Boomers lowered the average age at first marriage to 21 for women by 1971; the current crop of 20-somethings had pushed this out to 28 by 2001.

Boomers' tilt at the work-life balance suddenly supports demand for tele-commuting from sea change, or hill change, places. Xers and Ys require instant communication to coordinate the busy social lives of non-committed 20-somethings. Ys take full ownership of SMS text messaging: it fits their budget; it requires dexterity of fingers and thumbs (Boomers cannot be bothered with all of this, and they are less constrained financially—although this will change). SMS 'texting' is also a way for Ys to further distinguish their generation as being quite different to that of boomers in much the same way that Y girls expose their midriff: they text and they bare their bellies because boomers can do neither! It's another way of saying 'I'm young and you're not'. Perhaps there's scope for a new television series: *Text and the City*. The message from all of this is that while there may be 20 million consumers in Australia, this market is very much comprised of a 'loose confederation of warring tribes'.

Such tensions are likely to gather momentum as retiring baby boomers demand the re-allocation of national budgets away from, say, education to, say, health. Perhaps this fashion revolt is just the beginning. Perhaps a Generation Y comedian will strike a chord with the mass market in 2016 with this: 'What's the difference between a retired baby boomer and a leech? Leeches die quicker!'

*Bernard Salt is the partner in charge of KPMG's Retail and Property Advisory Group and author of the best-selling popular book The Big Shift: Welcome to the Third Australian Culture (Hardie Grant, 2001).*

**I P A**

# A Fatal Glitch in the IR 'Matrix'

GERARD BOYCE

**N**EXT year will be the centenary of the Australian industrial relations system based on Henry Bournes Higgins 'Harvester Man' legacy. Since 1904, this system has sought to manipulate employment arrangements artificially and protect them from a whole raft of external influences, especially competition.

Since December 2002, the National Electrical and Communications Association (NSW) (NECA) has opposed the approval of Electrical Trades Union (ETU) pattern enterprise bargaining agreements on the grounds of restraint of trade and potential breaches of the *Trade Practices Act 1974* (TPA). The case is now before a Full Bench of the Industrial Relations Commission of New South Wales and will be heard and determined later this year.

Although this all started as simply another run-of-the-mill industrial relations (IR) case, progress so far indicates that the application of commercial competition laws to IR is opening up a whole range of issues (or cracks) that few key players want exposed. As vested interests on both the employer side and union side wait in the shadows, ready to scramble to justify why the concept of 'IR' should keep its anti-competitive status and thus maintain its current TPA exemption, this case cuts straight through the smokescreen to bring the debate to the real issue: *Is the industrial relations system being used to manipulate or restrict access to markets, thereby determining how those markets operate?*

The issue in this debate is, therefore, not about rationalizing the maintenance of anti-competitive behaviour in respect of IR, it is about how IR is being used as a tool to mask anti-competitive behaviour in the market generally. Viewed in this context, labour market reform (especially in the building and construction industry) does not simply extend to making labour more flexible and productive at the workplace, but to making commercial markets themselves more competitive.

Witting and unwitting individuals engage in IR daily. We should be under no illusion, however, that conscious and orchestrated behaviour is behind this use of IR to make markets less competitive. The issues in this case, therefore, mark a fatal glitch in the IR 'Matrix'.

## PATTERN AGREEMENTS

The enterprise agreements referred to are not genuine (that is, individual company) enterprise arrangements, but 'pattern agreements'. Pattern agreements are enterprise agreements that are identical in form and content in respect of wages and conditions of employment. They are signed up to by a number of employers across an industry sector. They are negotiated at an 'industry level' and their flow-on to the enterprise level does not allow for any modifications.

The issue of pattern agreements is significant in the context of this case not because pattern bargaining or pattern agreements are themselves prohibited, but because

of the 'context' in which the negotiations for the restrictive clauses within these pattern agreements have occurred.

It is obvious that pattern agreements are approved by industrial relations tribunals. This approval occurs because legislation allows the tribunal to view the pattern agreement as a single company enterprise agreement rather than the industry-wide arrangement that it is.

## RESTRICTIVE PROVISIONS

Briefly, the 'restrictive clauses' in the pattern agreements under challenge require companies to:

1. Source additional labour only from labour hire companies who *have an enterprise agreement with the ETU*.
2. Endeavour to ensure that subcontractors *have an enterprise agreement with the ETU*.
3. Require apprentice group training companies that supply apprentices to *get an enterprise agreement with the ETU*.

Obviously, these restrictive clauses place obligations on external third parties who seek to supply a host company or acquire goods and services from a host company. It is these obligations which, in their purpose or effect, seek to restrict competition in the electrical contracting market to only those companies that have signed a pattern agreement with the ETU.

## MAKING THE 'UNOFFICIAL' OFFICIAL

The Cole Building Royal Commission exposed what everyone in the

building and construction industry already knew, namely, that to win major contracts on building projects in the capital cities of Australia one needs to have a pattern agreement. Hence, competition on these projects was shown to be ‘unofficially’ restricted to those companies that have signed a pattern agreement.

The restrictive clauses being sought by the ETU here, however, attempt to make ‘official’ these arrangements and in turn seek industrial tribunal sanction within a pattern agreement to enable legal enforcement and wider legitimacy. This is a bold attempt to use the IR smokescreen for what in any other setting would most likely be condemned as restrictive trade practices and a breach of the TPA.

#### **THE TPA DOES NOT APPLY TO IR—WRONG!**

The TPA contains one of the broadest exemptions ever with respect to ‘industrial relations and employment related issues’ [see s.51(2)(a)]. But it gives no so-called ‘blanket prohibition’ with respect to employment matters, and it does not extend to certain ‘restrictive trade practices’ [see s.51(2)]. Thus, although some IR arrangements which are clearly anti-competitive are given special sanction under the TPA, other areas of IR that have the effect of restricting trade and competition have no exemption.

The TPA therefore specifically acknowledges that these other areas of IR, such as the restrictive clauses being discussed, must be subject to the maintenance of competition, because they are capable of changing or determining how a market operates.

#### **THE ETU POSITION**

The ETU is lying low when it comes to debating NECA on the restrictive clauses. ‘This is not about restricting competition or extending the pattern agreement,

it’s all about the job security of ETU members’, says the ETU, ‘and in any event the employer has agreed to it’.

Terms in IR such as ‘consent’, ‘agreement’, ‘bargain’ and, in this case, ‘job security’ are in most cases accepted at their most innocent and straightforward levels. This is the public face of IR and it must occur or the IR Matrix will fall apart. For example, to suggest that pattern agreements are genuine ‘consent’ arrangements is simply to ignore the IR and commercial realities, yet consent is one of the central considerations upon which enterprise (and pattern) agree-

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***This is a bold attempt to use the IR smokescreen for what in any other setting would most likely be condemned as restrictive trade practices and a breach of the TPA***

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ments are approved by Industrial Relations Tribunals.

In the NECA/ETU case, the restrictive clauses have other purposes beyond that of job security for employees. They place obligations on companies who are not party to the pattern agreement and may not even be aware of its terms. As a condition of legally obtaining work, these obligations require that a company also have a pattern agreement with the ETU for a term of up to three years. They require a company to sign up to a pattern agreement that cannot be negotiated or amended. They even require a company to exclude its leg-

olated right to make an enterprise agreement directly with its own employees.

If these aren’t the consequences of the restrictive clauses, then the ETU itself doesn’t understand the effects of its own agreement.

#### **BUT HOW FAR CAN IR GO?**

If restrictive clauses in pattern agreements can be used expressly to restrict competition in a tertiary market such as the Building and Construction Industry, how much further can the industrial relations system go in sanctioning anti-competitive practices in markets? Perhaps there is no limit!

Pattern bargaining is potentially the most anti-competitive form of behaviour one will find in IR. It grounds itself in orchestrated manipulation of industrial relations legislation by unions and employers, and is legitimized by industrial relations tribunals at State and Federal levels.

Significant issues of power and money are at stake for all involved should the system of pattern bargaining break down in the building and construction industry. Genuine enterprise bargaining which creates competitive advantage between enterprises with respect to the use and price of labour would see devastating consequences for those with vested interests in the maintenance of current arrangements.

#### **VESTED UNION INTERESTS**

Building and construction unions require pattern bargaining as an essential ingredient to their survival. These unions have overcome any perceived difficulties from the introduction of enterprise bargaining in the early 1990s and built their whole empire on pattern bargaining. Pattern bargaining has become the ‘Union Privilege Business Model’ in the IR Matrix.

In terms of union membership, signing up a company to a pattern agreement means (amongst other

things) greater unionization of company employees. The more pattern agreements a union can achieve, the more union members it will generally have.

At the employee level, pattern bargaining allows the union machine to promote a consistent ideology of mutual reward and obligation across its membership base, along the lines of 'equal pay for equal work'. Here, competition between employees for individual recognition based upon performance is quashed even before it can be vocalized.

Within the union, centralization of demands and outcomes across an industry assists incumbent union leaders to maintain control mechanisms and stop potential factions being formed. Union office is essentially permanent tenure provided one's factional opponents can be stopped from taking hold; a pattern agreement is the perfect tool in this regard.

The Cole Building Royal Commission has exposed how construction unions can gain access to secret commissions and/or interest from the introduction and maintenance of employee entitlements, including from insurances and employee entitlement funds. Here, pattern bargaining is used by unions to claim publicly that entitlement protection, training or insurances are being sought as benefits for employees, while at the same time direct and indirect financial benefits (in the millions of dollars) are flowing back to union administrations.

#### **VESTED EMPLOYER INTERESTS**

Unions are well aware that nothing scares a company more than naked competition. Indeed, it is competition that determines profit and loss, and it is competition that determines survival and death. Promises of a 'level playing field' and protection from non-union labour under the guise of a pattern agreement become very attractive.

It is the major employers in the building and construction industry who generally form the original pattern agreement. It is these same major employers who are most exposed to union domination and militancy. These major employers see the pattern agreement or 'level playing field' as a normal business reaction to their union exposure. The rationale goes like this: 'if my company is going to have to pay these rates, then I can't compete unless everyone else is made to do the same'. The necessary flow-on from this is the destruction of normal competitive market forces.

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## **A more vigorous application of competition policy in terms of the effect of IR on the operation of the market is the key to fundamental and lasting reform in IR**

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Although many employers and employer associations will argue against the methods used by unions in attaining their pattern agreement, not all will openly argue against pattern bargaining itself.

#### **CONCLUSION**

This article has provided a limited opportunity to discuss some facets of the interaction between IR and anti-competitive behaviour, some of which is sanctioned under the TPA and some of which is not.

Provisions in enterprise agreements that restrict managements' capacity to run their businesses are not new. Neither are pattern agreements. NECA's current challenge

to restrictive clauses in pattern agreements on the grounds of potential breaches of the TPA, however, is the first time that these types of issues and concepts are to be argued before an industrial relations tribunal.

Far from simply being another employer/union scuffle over IR, the ramifications of this case lie not only in the final outcome, but in the arguments themselves. The broader implications of continued attention by courts, tribunals and the wider community to these type of issues as considerations or policy will create significant concern for those with vested interests in the continued maintenance of the IR Matrix.

A more vigorous application of competition policy in terms of the effect of IR on the operation of the market is the key to fundamental and lasting reform in IR. The trouble is that those advocating IR reform not only want reform, they also want to be able to control it. Unleashing the forces of competition, however, is the unleashing of an agenda that no-one can control except those who should be in control, namely, employers and employees at the workplace level as they react to the operations of the market.

If there is any possibility of conflict between IR and the TPA, common sense indicates that the TPA should be the victor. Pattern agreements must not be allowed to continue in any form, and vested interests must be made to swallow the bitter pills that this reform will bring.

The struggle for competitive markets has given Australians much of what we have today. It is this struggle that must continue to be our priority in the future.

*Gerard Boyce is Industrial Relations Manager for the National Electrical and Communications Association (NSW). He spoke recently at the IPA Conference on Industrial Relations.*

**IPA**

**REVIEW**

# What's A Job?

KEN PHILLIPS

## ILO Plays

How workers of the world can unite when the times they are a changin' seems to be the key issue confronting worker organizations around the world. It is an underlying theme of discussions and negotiations conducted recently at the peak world labour institution, the International Labour Organization (ILO).

The ILO is a division of the United Nations, with an annual budget of \$US480 million funded principally by the USA. The ILO was first established after World War 1 and reinvigorated after World War 2. The original driving concept was that the great divide between labour and capital was a major contributor to world conflict. If institutional structures facilitating dialogue between the warring classes could be created, this would contribute to world peace and development.

The operational processes of the ILO hinge on a formalized tripartite structure in which workers (unions), employers and governments each have equal voting strength in the forums which create labour standards to which participating governments may agree. In agreeing to ILO standards, countries undertake to implement the standards through legislation, regulation and administrative application.

As a dialogue forum, the ILO undertakes exhaustive consensus-focused processes. Unions, employers and governments send representatives to the ILO on a regular basis where labour matters are discussed and voted on over many weeks. The outcome is an ever-expanding list of standards, ranging from matters as administratively mundane as labour

statistics, to the vexing issue of what constitutes child labour and how to deal with it.

Unfortunately for the ILO, few countries sign up to the standards, which raises questions about the quality and relevance of the outcomes from such extensive talk-fests. But one significant impact the ILO does have is the way its standards are used by labour regulators to create moral force behind efforts in each country to create new and varied forms of labour regulation. Additionally, the forum facilitates networking between regulators, which contributes to a level of commonality across the globe on labour regulation approaches.

But because labour law has traditionally and historically been tied to the existence of the specific employment contract, the emergence over the last several decades of many different forms of work arrangements has thrown the common approach to labour law into some confusion. At the heart of this is the comparatively dramatic shift of workers away from the employment contract to working under the commercial contract—now said to be as high as 25 per cent of some national workforces.

This social change has produced challenges to existing government administrative systems, including tax collection, social security arrangements, workers' compensation and labour regulation. The change also challenges unions, because the self-employed are both employers and employees and have little time for unions whose business model requires class war with employers. How does one engage in war with oneself?

Confused? Well so is the ILO. In July of this year, the ILO devoted considerable energy to a forum seek-

ing to create a labour standard for workers who are not employees, but really are! What does this mean? Well no-one is really quite sure, but the ILO has been discussing the issue for nearly a decade. It would be funny if the implications weren't so serious.

First, the debate is being conducted without the self-employed having any representative rights and little if any input. Second, the game play by the unions is a disguised process aimed at making commercial contracts subject to labour law. Quite simply, when firms use cascading commercial contracts (franchising, contracting out, etc.) to manage their business affairs, the deconstruction of command-and-control structures does not suit the collective needs of unions.

But making commercial contracts subject to labour law attacks the core legal processes that enable markets to function.

Because global economic policy makers and analysts generally ignore ILO fantasies, this market-attacking agenda proceeds largely unnoticed, and is little studied or understood. But if the agenda succeeds, and it has already penetrated some countries, the consequent suppression of economic activity could cost millions of jobs globally, retard world economic growth and increase the level of global poverty.

All this is occurring within the structures of an organization that promotes itself as the defender of the weak, the poor and the oppressed.

*Ken Phillips is a workplace reform practitioner who promotes the principles of 'markets in the firm'.*

I P A

# Chicken Little

## The Green Threat to Progress

ANDREW McINTYRE

**W**E ARE all familiar with the Greens' approach to risk, and the panic and fear deliberately induced by claims of threats to the environment, sea level rises, pollution and global warming. It is no small irony that this panic and fear comes at a time when good management of resources and technology, science and political organization have brought mankind to a point of comfort, well-being and certainty unimagined at any other time in human history.

Indeed, it seems to be a paradox that it is precisely because of this well-being and certainty in our lives that we have now become obsessed with uncertainty, and have now effectively legislated to outlaw it. This uncertainty phobia is called the Precautionary Principle.

According to the *Scientific American* [David Appell, 2001], the Principle can be traced back to a committee of West German public servants in the mid-1960s. It is now a matter of law in Germany and Sweden and is increasingly finding its way into international agreements. It has even worked its way into US policy.

In Australia, back in 1992, an Intergovernmental Agreement on the Environment, involving all three tiers of government, gave a definition:

where there are threats of serious or irreversible environmental damage, lack of full scientific certainty should not be used as a reason for postponing measures to prevent environmental degradation.

Bluntly put, that means that those who develop any new technology or application must prove that there will be absolutely no adverse effect. This, as

we know, is a scientific impossibility. Science can never prove a negative. From a public policy point of view it endorses the idea of making non-science-based decisions. In other words, caution first, science second.

The ramifications are quite horrendous. But from the viewpoint of our own society, where we seem to have almost every comfort, brilliant drug, technology and gadget imaginable, it is difficult to press this point. Not only is it almost impossible for most people today to begin to grasp just how appalling the physical environment and living conditions were barely 100 years ago in Europe, it is impossible to imagine what our world would have been like if the Precautionary Principle had been adopted a few hundred years ago. The answer is pretty dismal. There would be almost nothing of what we today take for granted, from penicillin and antibiotics, through electricity, telephones and computers, right down to knives and even fire! [see the box on the next page]. Forget about hot showers and breakfast food, let alone genetics, quantum mechanics, space exploration and pesticides. Common household bleach? 'You mean you're going to allow poison gas into my home?' The problem is that there is nothing we do or explore or experiment with that has no theoretical risk, and nearly everything carries some actual risk. But the Precautionary Principle effectively outlaws anything with risk.

In response to this universal panic by environmentalists and doomsayers, *spiked online* [<http://www.spiked-online.com/panicattack/default.stm>] recently organized a large conference in London called *Panic Attack: interrogating our obsession with risk*, in con-

junction with the Royal Institution of Great Britain and Tech Central Station, Europe. The conference covered topics from chemicals in food to children and obesity, from Gulf War Syndrome to global warming. Discussion of these issues revealed the extent of our society's preoccupation with negligible levels of actual risk, and asked why this might be.

As a run-up to the conference, scientists from all areas of research were asked to speculate on the impact of the Precautionary Principle on their fields of work, had it been in place in the past. The results certainly produce a precautionary tale. In fact, they were overwhelming, right down to the very basics of pre-human existence. 'Fire—very dangerous—plus all other useful forms of energy', claimed John Adams, Professor of Geography at University College London. 'Energy misdirected can cause harm, and the precautionary principle requires that if it can be misdirected, you must assume that it will be'. Or, as Julian Morris of the Institute of Economic Affairs in London remarked, 'If someone had evaluated the risk of fire right after it was invented, they may well have decided to eat their food raw'. So, end of fire.

Dr Gail Cardew, head of programmes at the Royal Institution in London, explains its impact on the discovery of penicillin:

Were the precautionary principle adopted at the time, penicillin would not have been given to [the first trial patient] after so little testing in animals. No doubt it would have been tested on other animals, and yet subsequently penicillin was found to be toxic to guinea pigs. In this scenario, would we have been too cautious

ever to try out 'the wonder drug' on humans?

There was overwhelming consensus amongst medical scientists that all major medical breakthroughs would have been prevented by the Precautionary Principle. There would be no exceptions. Even the live Salk polio vaccine carried a five per cent risk of inflicting the disease.

Carl Djerassi (Emeritus Professor of Chemistry at Stanford University, and father of the modern contraceptive pill) points out that not only would the contraceptive pill for women never have come to light, but it is precisely because of the precautionary principle that we still have no such pill for men. He is clear that had he been forced to deal with the restrictions and interference that are commonplace these days in biomedical research, he would never have set to work on the birth control project. No pill. Just think of that boys and girls!

One clear recent example of the negative effect of the Precautionary Principle in practice is the use of DDT. We forget that DDT actually saved millions of humans from dying of malaria. As Djerassi points out, 'it is now conveniently forgotten that DDT eradicated the disease from the entire Mediterranean region'. It is now claimed that global warming will lead to a rise in malaria deaths when the real danger is the ban on DDT. As Dr Elizabeth M. Whelan, President of the American Council on Science and Health [*Health Priorities*, Volume 8, Number 3, 1996] puts it, 'The Precautionary Principle overlooks the possibility that real public health risks can be associated with eliminating miniscule, hypothetical risks'.

Another example of a huge benefit nearly forgone is that of Golden Rice. Ingo Potrykus (Emeritus Professor of Plant Sciences at the Swiss Federal Institute of Technology, and the inventor of Golden Rice) explains, 'I have invented and developed Golden Rice, a transgenic rice variety which produces provitamin A and which will substantially contribute to a reduction in vitamin A malnutrition, thus pre-

## You Can Kiss Them Goodbye...

The Bicycle; Biotechnology; Blood transfusion; CAT scans; Chlorine; the Contraceptive Pill; Cultivation of rice and maize; Digitalis; the discovery of DNA; Electric light bulbs; Electroconvulsive therapy; Fire; Gas power; GM crops; the Green Revolution; work by Galileo and Newton; High-voltage power grids; Hoes; Hybrid crops; the Human genome project; the Internal combustion engine; the Internet; In vitro fertilization; Iron; the Jet engine; Knives; the Measles vaccine; Molecular biology; Neural lesions; NMR imaging; Nuclear fission; Nuclear power; Nuclear physics; Oil; Open-heart surgery; Organ transplants; Pasteurization; Penicillin; the Periodic table; Pesticides; Plant domestication; Ploughs; the Polio vaccine; Quantum mechanics; the Rabies vaccine; Radar; Railways; Radiation; Radio; Radioisotope thermal generators; Refrigeration; Rocket power; The Smallpox vaccine; Space exploration; Steam power; Stem cell biology; the breaking of the Sound barrier; the Telephone; Water supply and distribution; the Wheel; X-rays.

venting numerous children from becoming irreversibly blind. Throughout the work, it could not be guaranteed that harmful effects could be excluded. Having Golden Rice in hand, we can exclude this possibility now, but not before we had solved the scientific problem'. As he points out, 'The application of the precautionary principle in science is in itself basically

anti-science. Science explores the unknown, and therefore can *a priori* not predict the outcome. To turn an old saw on its head, it would be better to be poor, blind and safe than to be sorry'.

The madness, if not already apparent from the examples above, is confirmed with observations by Sallie Baliunas (astrophysicist, and enviro-sci host at Tech Central Station). 'Electrification of the USA—the environmental impact statements concerning the siting of power plants and transmission lines, and concerning the air and water pollutants, would still be underway. The final vote of the Precautionary Principle Committee (PPC): no, we cannot electrify the country, because of the environmental risks'.

Dr Whelan points out that the Precautionary Principle is wrong footed because it always assumes worst-case scenarios, and that it distracts consumers and policy makers alike from the known and proven threats to human health. She quotes an ancient philosopher, 'It is a serious disease to worry over what has not occurred'.

While the obsession with risk shows little sign of abating, the conference organized by *spiked online* believes that there is a large and diverse audience for critical voices in discussions about this trend. The more people who are prepared to raise their heads above the parapet, the harder it will be for new and more destructive panics to take hold.

With all this evidence of the perverse and unintended consequences of the Precautionary Principle, the reader must be wondering why so many of the anti-American hating Left are for it. Just think. If the Precautionary Principle had been applied 500 years ago, the most important discovery that would never have been made is America. Not even once. Makes you think.

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

**I P A**

# TCF Tariff Cuts: A Key Character Test

SIMON RAMSAY

**C**ANBERRA is presently facing a key character test with respect to its 'Modern Economy' credentials through the review of tariff and industry assistance for the textile, clothing and footwear (TCF) sector. Despite this difficult test of economic integrity, however, Canberra need only stick to its existing taxation, trade and industrial relations policies.

Victoria is home to 20 per cent of Australia's sheep flock and to a large section of the TCF sector. It therefore remains a key battleground in the fight to lift Australia's tariff barriers. Currently, the TCF sector, which directly employs 64,000 people, receives direct budget and tariff assistance of about \$800 million and enjoys an effective assistance rate of 25.6 per cent.

The VFF Pastoral Group, which represents over 5,000 Victorian farm businesses, including thousands of wool producers, is intent on seeing Canberra cease all relevant industry support programmes by 30 June 2005 and reduce all TCF tariffs to five per cent or less by 2010. We would like to see this happen because wool producers believe that the short-term economic benefits of false economies are far outweighed by the massive potential of a highly competitive textile export sector. Moreover, by eliminating market-distorting tariffs, Government will have the chance to enhance Australian business performance by improving economic opportunities.

As things stand now, tariff protection ensures that Australian

families pay higher prices for life's necessities such as clothing, shoes and socks. As well as inflating the cost of living, tariffs also lead to higher business costs for work equipment, such as uniforms and farming gear. Curiously, rather than assist industry and consumers by improving growth prospects and profitability, current tariff policy actually burdens textile businesses by discouraging innovation, stagnating market growth and rewarding idleness. Clearly, TCF tariffs are failing to encourage the achievement of their desired objectives.

TCF tariffs also hurt our international trade goals through the WTO. On the one hand, Australian representatives are aggressively pursuing agricultural tariff reduction in the US, the EU and Japan; on the other, Government is drip-feeding its inefficient manufacturing sector via a generous tariff system. As any good negotiator will tell you, nothing can be more devastating to one's argument than the charge, 'do as I say, not as I do'. For Australian businesses to truly benefit from free trade agreements, our representatives must be able to argue their case both logically and morally. By arguing against that which we conduct in our own backyard, our ability to achieve real outcomes remains extremely weak.

Another area that is affected by TCF tariffs is IR reform. Despite several attempts to achieve real change in this area, Canberra has failed to pass legislation that delivers flexibility to business. The failure to achieve this change is as much a result of political obstruc-

tion as it is a lack of policy consistency. By continuing to maintain inefficient businesses on the taxpayer-funded tariff drip, reform pressure on industry remains non-existent. The very fact that the Presiding Commissioner of the Productivity Commission, David Robertson, said in the *Financial Review* (16 April 2003) that 'Australian firms could not compete against significantly lower labour costs' is a telling point of the need for urgent IR reform. Ironically, the industry that would most benefit from Canberra's IR agenda is the one that enjoys the best tariff protection. By removing TCF tariffs, Canberra would undoubtedly gain a powerful ally in the push for IR reform. Without a doubt, this industry policy contradiction must be resolved before serious IR reform can be achieved.

Overall, there are three extremely good reasons for delivering sensible tariff reform to the TCF sector. By adhering to its own principles, following commonsense, and by acting in the best interests of Australian consumers and business, the path for our political leaders could not be clearer. Canberra needs to turn up the heat under our tariff protected industries, quicken the pace of industrial reform and put an end to the industry protection that undermines our nation's economic interests.

*Simon Ramsay is President of the Victorian Farmers Federation Pastoral Group.*

**I P A**

**REVIEW**

# The Capacity to Manage Index

## Report 3: The Australian Automotive Industry

IPA WORK REFORM UNIT

### INTRODUCTION

The Institute of Public Affairs launched its Capacity to Manage Index in December 2002. The first two industries studied were commercial construction and food manufacturing and this, the third study, looks at the Australian car manufacturing industry.

The Capacity to Manage Index undertakes an analysis of Australian enterprise agreements and looks at them from the perspective of their impact on the capacity of managers to manage their businesses. The assessment process involves studying each clause in an enterprise agreement to see if the clause reduces, enhances or is neutral in relation management capacity. Appropriate industry award standards are taken as the 'zero' mark, and clauses receive a negative, positive or neutral rating.

[Full details of methodology, the assessment 'grid' we have developed and all assessments undertaken are available from the IPA on a subscription basis. Contact the IPA for details and go to [www.ipa.org.au](http://www.ipa.org.au) 'work reform unit' for more information.]

### THE AUSTRALIAN CAR MANUFACTURING INDUSTRY

The Australian car manufacturing industry has gone through substantial change over the last few decades—precipitated by reductions in the levels of protection. Despite the many claims about its imminent demise, it remains a large, viable industry, with turnover of around \$17 billion a year and a workforce of 54,000 people.

The industry has survived through a process of reform designed to integrate it into the world auto industry. Although this integration has been achieved, it now faces the very real challenge of remaining viable.

The Australian industry is structured very much on global lines. At its apex are four global car firms: Holden, Ford, Mitsubishi and Toyota. Below these firms are around 200 parts manufacturers specializing in particular products that they supply to one or several of the big four. Some parts manufacturers are relatively small privately owned companies. Others are subsidiaries of large multinationals, for example, the German giant, Bosch, which manufactures the anti-lock braking systems (ABS) for Australian-manufactured cars. Many of the supply chain manufacturers also export product and are not totally dependent on the big four as customers.

Domestic assembly, like all car manufacturers worldwide, operates on tight 'just in time' delivery schedules, where product is manufactured and delivered almost immediately. The process results in low tolerance of error, inventories are minimal, margins are extremely tight and delays can quickly cascade into industry-wide shut-downs.

The Australian industry has specialized in the manufacture of a single type of vehicle—the large fleet car—and competes with offshore operations manufacturing often identical vehicles. Thus, the local industry is benchmarked di-

rectly against offshore operations. Adding to this demanding commercial environment is the growing excess capacity in the industry. Worldwide excess capacity is estimated to be around 25 per cent and new factories currently under construction in China, USA and elsewhere are adding to this. Ford has responded by closing five plants in Europe and is seeking to close five plants in the USA. In this environment, no sentiment is shown to those who don't achieve constant improvement. Indeed, Ford international is reportedly on the verge of bankruptcy because of its failure to remain competitive. Nissan, once a Japanese powerhouse, was recently bailed out and brought back from the brink of collapse by Renault.

The local industry is also facing a much more hostile exchange-rate environment. The Australian dollar has risen over 30 per cent against the US dollar over the last 18 months. Many pundits are forecasting further appreciation of the Aussie dollar, which would further undermine the industry's international competitiveness.

Although the industry has come a long way in terms of labour productivity and industrial relations, a recent review undertaken by the Productivity Commission<sup>1</sup> concluded that: 'Recent progress notwithstanding, there remains considerable scope for improvement in workplace arrangements in general and industrial relations in particular'. It went on to cite on-going problems such as: workplace inflexibilities, demarcation disputes, ►

**Capacity to Manage Index**  
**Overall Ratings, Automobile Industry**

Company Name	Party to agreement Union/other	Year applies	Rating
ACL Bearing Company	AMWU, CEPU, AWU, ASU	01-03	-17
ACL Gasket Company	AMWU, NUW	01-03	-10
Afco Automotive Foam	NUW	01-04	-11
Air International Interiors SA	AMWU	01-04	-13
Air International Pty Ltd -Vic	NUW AWU	02-04	-11
Ajax Fasteners	AWU	00-03	-1
Aunde Australia	No Union	01-03	-3
Australian Auto Air	AMWU	01-03	-11
Australian Arrow	NUW	02-04	-12
Australian Timken Pty Ltd	AMWU	00-03	-22
Autoliv Australia Pty Ltd	NUW AMWU	00-03	-4
Bendix Mintex Pty Ltd	AMWU, CEPU	00-03	-10
Berklee	No union	02-05	-1
Bosch Hydraulic	AMWU	00-03	-8
Bridgestone Tg Aust Pty Ltd	ALHMWU, AMWU, CEPU, NUW	01-03	-14
BTR Auto Drivetrain Systems	AMWU	01-04	-14
Castalloy	AWU	01-04	-11
DENSO International Australia P/L	AMWU	00-03	-12
Exide Technologies Automotive	AWU	02-04	-26
Flexdrive Cables Australia Ltd	AMWU, CEPU	00-03	-14
Ford Motor company	CEPU, AMWU, ASU	00-03	-11
GUD	AMWU	00-03	-7
Hayman Reese Pty Ltd	AMWU	00-03	-5
Hella Australia Pty Ltd	AMWU, AWU, TWU, ASU, NUW	00-03	-13
Hendersons Industries	AMWU	00-03	-1
Holden Aust Ltd	AMWU, CEPU, AWU, CFMEU, NUW, ASU, APESA	01-04	-21
Howe & Co Pty Ltd	ALHMWU	01-03	-3
Kenworth Trucks	AMWU	01-03	0
Mark IV Automotive	AMWU	01-03	-2
Mett Die Casting Pty Ltd	No union	02-05	-3
Mitsubishi	AMWU, CEPU, ASU, AWU	01-04	-11
Monroe Australia Pty Ltd	AMWU	02-05	-9
MTM Pty Ltd	NUW	02-05	2
Nissan	AMWU, ASU	02-05	-17
NORMA PACIFIC Pty Ltd	AMWU	01-03	-21
Nylex	NUW	02-04	-11
PBR Australia Pty Ltd	AMWU, CEPU, NUW	00-03	-6
Plexicor	NUW	00-03	-8
Preslite	AMWU	00-03	-15
QTB Automotive	No union	02-04	1
Siemens VDO AUSTRALIA PTY.LTD.	AWU	02-03	-17
Spicer Axle Australia	AWU, NUW, CFMEU, CEPU, ASU	01-04	-4
Suspension Components Pty Ltd	AMWU	01-02	-9
Toyo Tyres	NUW	02-04	-6
Toyota main	AMWU	02-05	-28
Trico Products PTY LTD	AMWU	00-03	-7
Viscount Plastics Pty Ltd	NUW	02-04	0
<b>Average score</b>			<b>-9.7</b>

high levels of stoppages and lost time. Indeed, the Commission found that 'In 2001, working days lost in the automotive industry were almost six times higher than the all industry average'. One vehicle producer told the Commission that the 'workplace and industrial relations climate has been the major point of contentions in its recent discussions with the parent company about proposed new investments in Australia'. Geoff Polites, CEO of Ford Australia, stated that 'head office had questioned how things were going in strike-land'.

While levels of protection have declined sharply over the last few decades, the industry remains heavily supported by tariffs and subsidies to the tune of \$1 billion per year, or \$2,800 per car. The subsidy programme was recently reviewed and renewed—albeit at a reducing rate. Because of its concerns with the industrial relations climate in the industry, the Federal Government considered tying assistance to progress in IR reform. Although it chose not to pursue this policy, it has made it clear that it expects the industry to pick up its game in exchange for the taxpayers' huge investment. This is particularly relevant given that most Enterprise Bargain Agreements are up for renegotiation during 2003.

Enter the IPA's Capacity to Manage Index. The Index gives a detailed, operation-by-operation assessment of the workplace relations in the industry. It establishes a benchmark for assessing whether new EBAs add to or subtract from the industry's competitiveness. It also gives the Government an objective measurement of whether the industry is doing the right thing by the community and the taxpayers, and ensuring an arrangement which yields a competitive, flexible and focused workplace.

## WHO IS IN THE DRIVING SEAT?

Of the 47 enterprise agreements studied (representing one quarter of the industry) only four agreements allowed for any increased management capacity. Twenty had a mild decrease in capacity (-1 to -10), seventeen had a significant decrease in capacity (-11 to -20) which included Ford and Mitsubishi, and six demonstrated a major decrease, including Holden and Toyota. With an overall ranking of -28, Toyota scored negatives on almost all relevant clauses.

Some 80 per cent of enterprise agreements significantly restricted or eliminated the capacity of firms to use other than full-time, collectively organized permanent employees. These included prohibitions on the use of casuals, labour hire, contractors or Australian Workplace Agreements.

'Consultative' committee structures advanced well beyond consultation in more than one-third of agreements, thereby removing decision-making capacity from management and placing it in the hands of a complex committee process.

Decisions over critical production processes—particularly changes to production requirements, rostering, occupational health and safety and other items—affected some one-third of companies. Some of the biggest names in the industry—Ford, Holden, Bridgestone, Mitsubishi and Toyota—were particularly affected in these areas.

Toyota warrants special study because it achieved negative ratings on a wide range of important issues which impact on what appear to be critical areas of its operation. Training, safety and job allocation are subject to consultative committee control. Casuals are allowed only in limited circumstances. Use of labour hire workers is only allowed with union approval. Contractors can only be

used in trade areas and only for limited periods. Manning levels are controlled by a committee and changes require agreement from the union. Changes to production organization and the introduction of new technology require union approval.

One possible interpretation of the Toyota agreement suggests that an ossification of production process could set in, threatening the ability of the company to respond to changing circumstances. Of course, relationships with the unions and employees on the committees might compensate for this, but the Capacity to Manage Index cannot assess actual management outcomes.

Overall, the car industry would seem to have a problem with a reduced capacity to manage—particularly given the critical need of the industry to perpetually and rapidly respond to changing circumstances, an unpredictable exchange rate and the demands for constant improvement. There are some manufacturers whose reduced capacity to manage is arguably marginal and a few who have achieved improvements. Of note, however, is the fact that none of the big four fit into either of these last two categories.

This Capacity to Manage study looks at the car industry enterprise agreements that are currently undergoing renegotiation. When this round of agreements is settled some time in 2004, the IPA will revisit the agreements to see if any positive or negative shift has occurred in the capacity of the Australian car industry to manage its operation.

## NOTE

- 1 Productivity Commission, 'Review of Automotive Assistance', Report No. 25, 30 August 2002, pages 49–55.

**IPA**

**THE (MEDIA) REFORMATION?**

When, in 1454, Johannes Gutenberg pulled the last page of his newly-printed Bible from his press, it is likely he was filled with nothing more than joy at the prospect of sharing more widely the Word of God. Could he have anticipated that he was fuelling a future Protestantism, which commenced when Luther nailed up his *Theses* 63 years later?

Prior to Gutenberg, in a largely illiterate culture, the Word was delivered to the masses by the official bringers: the members of the Catholic clergy. Over the centuries it had gathered a considerable accretion of traditional practice, official interpretation and, indeed, misleading embellishment.

Luther, with his like-minded thinkers, may by themselves have been able to generate a church that deviated from Catholicism. But his central message of going back to the pure Word of the Bible would surely not have produced the world-wide spread of Protestantism except for two other circumstances. One was the increasing literacy in the population, and the other was the availability of relatively inexpensive Bibles. Gutenberg directly prompted the latter by his innovation (although his own printings were premium products: see [prodigi.bl.uk/gutenberg/default.asp](http://prodigi.bl.uk/gutenberg/default.asp) for images of the real thing). The former was indirectly prompted by Gutenberg. Literacy is not a useful skill unless there is something to read.

Are we seeing a secular repetition today?

Until the advent of the World Wide Web, access to information

about events outside immediate observation was subject to the control of gatekeepers, like the Catholic clergy of the Middle Ages. These gatekeepers were the publishers of books and periodicals, and the owners of the electronic media.

Their presentation of facts and events was necessarily constrained. Not all that could be documented, in government archives, in reporters' notebooks, in personal reports, could make its way into the available media, if only by reason of space limitations.

Now, though, the World Wide Web has dramatically lowered the cost of the distribution of documents. A Bible can be obtained for free. And so can many other documents.

Had the media systematically misrepresented US Defence's Paul Wolfowitz's recent remarks a decade ago, it may never have emerged. But now you can go to:

[www.defenselink.mil/transcripts/2003/tr20030509-depsecdef0223.html](http://www.defenselink.mil/transcripts/2003/tr20030509-depsecdef0223.html)

and discover that he most certainly not claim that weapons of mass destruction were a mere pretext for war.

Anyone following the Hollingworth affair would not know what were the facts, and what was only opinion, even in purported news reports. Unless, that is, they read the Anglican Church's Enquiry report at:

[www.parliament.qld.gov.au/OtherTabledDocuments.htm](http://www.parliament.qld.gov.au/OtherTabledDocuments.htm)

Once again, the bottleneck through which information previously had to travel has been shat-

tered. And perhaps we shall see a new Reformation, this time of the media.

**SPINSANITY**

In May 2003, shortly before a rash of bombings throughout the Middle East, President George W Bush made, according to *New York Times* columnist Maureen Dowd, the rash claim that '[Al Qaeda are] not a problem anymore.' Naturally this was repeated across America; across the world.

But it soon became apparent that Bush had said nothing of the sort. Rather he said: 'Right now, about half of all the top Al Qaeda operatives are either jailed or dead. In either case, they're not a problem anymore.' That stands to rea-



son. If you're dead or locked up, you can't perform too much terrorism. The reversal of meaning was thanks to Dowd's artful use of an ellipsis to leave out the 'jailed or dead' sentence. This process has generated a new Blogging term of art: 'Dowdification'. Read the whole sorry story at:

[www.spinsanity.org/columns/20030522.html](http://www.spinsanity.org/columns/20030522.html)

Then hit the 'Home' link to see many other journalist-generated myths debunked.

**BIASED BBC**

In my Blogging piece, I drew attention to ABC Watch. But the ABC's inspiration has long been the BBC—the same BBC that the



British flag ship, the *Ark Royal*, switched off during the Iraq War because it so infuriated the sailors. Naturally, there is a Website devoted to exploring the BBC's many misrepresentations, including the ludicrous story that the rescue of US Private Jessica Lynch was 'staged'. Go to:

[biased-bbc.blogspot.com](http://biased-bbc.blogspot.com)

**WATCHING THE WATCHERS MAY MAKE THEM WATCH THEMSELVES**

The hammering on the virtual doors of the *New York Times* over the Jayson Blair affair (Blair resigned in May 2003 over the manufacture of some stories, and wholesale plagiarism of others) ultimately induced the resignations of its top two editors. But media bias is rarely intentional deception. More commonly it stems from a world view that fails to encompass (in the case of left-wing bias) a proper conception of economic freedom, and is instead infused with a sense of short-

sighted compassion for the immediate suffering of some.

Communications Minister Alston's 68, er, *Theses* on bias on the ABC's AM radio program make compelling reading to me. But if your world view is the same as that of Linda Mottram and John Shovelan, it would seem quite laughable. Read it yourself at:

[http://www.dcita.gov.au/Article/0,,0\\_4-2\\_4008-4\\_114920,00.html](http://www.dcita.gov.au/Article/0,,0_4-2_4008-4_114920,00.html)

A far more powerful dissection of unconscious bias appears in an internal memo of the *Los Angeles Times*, which leaked. The Editor, in his forensic analysis of one of the paper's own articles, wrote: 'We may happen to live in a political atmosphere that is suffused with liberal values (and is unreflective of the nation as a whole), but we are not going to push a liberal agenda in the news pages of the Times.' Powerful stuff. Go to:

[www.nationalreview.com/thecorner/03\\_05\\_25\\_corner\\_archive.asp#009170](http://www.nationalreview.com/thecorner/03_05_25_corner_archive.asp#009170)

**MORE AND MORE AND MORE**

The United States being a much bigger place than here, it can have organizations devoted exclusively to such niches as watching the performance of the media. Once such is the Media Research Center, which brings out many instances of bias and misreporting. Go to:

[www.media-research.org](http://www.media-research.org)

It is always tempting to assume that others view the world in the same way that we do ourselves. But this is dangerous because it simply isn't true. A small sense of this

can be gleaned from Egypt's recent banning of *The Matrix: Reloaded* and its recent showing of a TV series based around the anti-Semitic Tsarist forgery, *The Protocols of the Elders of Zion*. The Middle East Media Research Institute provides an unsympathetic gateway into the Arab language press. Go to:

[www.memri.org](http://www.memri.org)

The awarding of the 2003 Best Documentary Oscar to Michael Moore for *Bowling for Columbine* may make you, as it does me, squirm. But to see how much Moore lied—by, for example, stitching together different Charlton Heston speeches to make him seem like an insensitive brute—go to:

[www.hardylaw.net/TruthAboutBowling.html](http://www.hardylaw.net/TruthAboutBowling.html)



Finally, there's that warehouse of the trivial, our own ABC's Media Watch. Go to:

[www.abc.net.au/mediawatch](http://www.abc.net.au/mediawatch)

**FEEDBACK**

I would welcome advice from readers on any other sites of interest to *IPA Review* readers. E-mail me on [scdawson@hifi-writer.com](mailto:scdawson@hifi-writer.com).

# Don't Get Trapped by the Poverty Trap

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SENATOR THE HON. AMANDA VANSTONE

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**F**ORTY years ago the United States welcomed its first Catholic President. The President and his First Lady were young, rich and beautiful. To many it seemed that Camelot had come to Washington. He made inspiring speeches. There were many that moved the hearts and minds of Americans. A few moved hearts and minds around the globe.

Perhaps the most commonly quoted statement comes from his inaugural address: 'Ask not what your country can do for you, ask what you can do for your country'. It was and remains an ennobling thought. It says to each and every citizen: you have something to contribute, we need you, you are a valuable part of this nation. The recognition that we all have something to give is important. It's inclusive. When we realize that we have something to contribute, that we are valued, we feel enriched.

Australians are great contributors. Some have more than others to give, but we can all give something: it might be a skill; it might be a sympathetic ear, perhaps just a smile. It may be money or it could be time. Often that can be a precious thing, involving sacrifice by the one giving or providing a helping hand when it is needed most.

We have some very generous people in Australia. Over 4 million people over the age of 18 do some voluntary work: they plant

trees, deliver magazines in hospitals, cook breakfasts at homeless shelters and read newspapers to the blind. We have many in the private sector who do very good things for the community and seek little if any reward for doing so.

In my home state of South Australia, the Burns for Blinds company partnered with the Youth Opportunities Association to run highly successful personal leadership programmes. These give disadvantaged youths the skills, confidence and motivation to break free from their downward cycle.

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***We seem to have forgotten that when we expect something tangible from government we are expecting other Australians to pay for it***

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This resulted in retention rates between Year 10–12 increasing from 50 per cent to an inspiring 88 per cent between 2000 and 2002. For their efforts, they were awarded

with a Prime Minister's Community Business Partnership Award.

We want to revive the spirit embodied in the Kennedy statement, the spirit of giving and doing what you can. That's why we are so supportive of the Prime Minister's Employer of the Year awards and also why we established the Prime Minister's Business Community Partnership and have increased support for volunteers.

We all admire the sentiment behind Kennedy's exhortation. Our parents and grandparents put it into practice, but today however, many seem to believe that it applies only to a part of our lives; that part where we volunteer, or where through our business, we engage in some philanthropic activity. We believe we can do all that and separately have expectations of what government will do for us.

## **ENTITLEMENT AND WELFARE**

In Australia, we have built extensive expectations of entitlement. Entitlement certainly doesn't mean just welfare. It's an expectation of what you are entitled to have. It comes with the view that if you don't have it, government should be providing it.

We seem to have forgotten that when we expect something tangible from government we are expecting other Australians to pay for it. While we seem happy to keep the profits private, we are keener and keener to socialize risk

and loss. Everywhere you turn, it seems we expect other taxpayers to foot the bill. In Australia, we have a generous welfare system. It is not a system whereby what you put in, or how long you've worked, makes a difference to your entitlement. It is based on need.

People in the same circumstances are entitled to the same assistance. Each of the benefits has a maximum rate, which tapers off as your income increases. As you start to earn more, the support from the Government is reduced. It's this aspect of our system that makes it so fair. It's also this aspect of the system that makes it distinctively Australian. And yet it's this aspect that causes some consternation.

If you earn more, you get less. You are becoming independent. You are supporting yourself and relying less on support from others. As your income moves into the taxable area, in addition to paying tax, you continue to substitute dollars you have earned for dollars of support the community provided you with as welfare. So when you hit the taxable area, you are paying tax and replacing the welfare support from the community with dollars you have earned yourself.

Let's be clear about this, however. There are two things happening here. Like everyone else, people moving from the dole to work, pay tax. At the same time, they are replacing welfare dollars with dollars they earn themselves. They are building independence. These are two different things. For example, in the Newstart payment, the old Dole, once you start earning over \$62 per fortnight, 50 cents of welfare is taken away for every extra dollar you earn. You keep 50 cents of the welfare even though you've earned an extra dollar. Then when you're earning \$142 a fortnight, 70 cents is withdrawn for every extra dollar you earn. At \$230 per fortnight, you

will start to pay 17 cents in the dollar tax.

### **TAX RATES AND INCENTIVES**

Note, you are better off working. The amount of tax you pay in the dollar, plus the withdrawal rate in the dollar from any benefit you lose is called your Effective Marginal Tax Rate (EMTR). It's a term that suits economists. It indicates that you keep fewer cents in the dollar than someone who isn't get-

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***I am certain that  
many people don't  
dismiss work as  
an option just  
because they lose  
welfare payments  
when they earn  
some money for  
themselves***

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ting welfare. It misleads in that it suggests you are giving more of your hard-earned money to the tax man than anyone else is required to do.

But, you are giving exactly the same amount of your hard-earned money to the taxman as anyone else. You are also saying to the community that supported you when you needed it, 'Here, I can support myself now.' You're not returning your hard-earned money, you're taking less of the hard-earned taxpayer dollars and you are doing it because you have some hard-earned dollars of your own.

Only part of your EMTR is tax. The rest is simply your replacing some of the money the community

has been giving you as support with dollars you earn yourself. This is a vital distinction.

Economic behaviour gurus will tell you that if people don't feel there is sufficient reward for effort, the effort will not be expended. The argument is that people will be more likely to stay on welfare.

I am not arguing that EMTRs do not have a disincentive effect. I know that economists model such things. Economists' models are not facts and we should never mistake them for reality. Those who choose not to work—because they lose welfare dollars by earning their own—have an entitlement attitude.

A person with this attitude says, 'I am entitled to support even though I am not doing everything I can for myself.' In other words, other taxpayers should support me even when I am not doing everything I can to support myself.

Whatever the numbers, I am certain that many people don't dismiss work as an option just because they lose welfare payments when they earn some money for themselves. For them this is an issue of right and wrong. They are aware that welfare is somebody else's hard-earned money, not their own. They make a conscious decision to work through the income zone where they are replacing taxpayer dollars with their own dollars because they can see what's on the other side. They can get to the point where they are doing everything they can for themselves and can be independent.

### **OTHER COSTS AND BENEFITS**

The cost-benefit analysis of working, if it is to be fair to individuals, must take into account much more than just the dollars. There are tremendous benefits in having a job. They may not fit into a formula (such as an EMTR)—they may be intangible, but they are very real. ▶

Think of the benefits that flow from increased social contact: job satisfaction; self-esteem; the chance of advancement; of knowing you're setting a good example to your kids; and, of course, there's the longer term tangible advantage of having some superannuation.

More pragmatically, attempts to lower EMTRs, to soften the withdrawal rate of welfare, have a real downside. They cost a lot more than most people imagine because they push up the income level at which people are still receiving welfare. This, of course, would allow people to keep more welfare dollars than they can now as their income rises. But it also makes payments to a whole new group of people.

If your welfare payment now cuts out completely at X thousand and suppose we introduced a softer taper, so that it didn't cut out until X plus 5,000—then everyone between X thousand and X plus 5,000 who are not now on welfare, would become entitled to some assistance. A new pool of welfare beneficiaries would be born.

I recognize that there are families with very high EMTRs because they are getting multiple payments. Sadly, some people are experiencing EMTRs over 100 cents for every extra dollar they earn.

## **PENSIONS AND WELFARE**

Over the years, attitudes to the Age Pension have changed as more and more mainstream Australians have come to rely on the Age Pension for at least part of the income needed to maintain themselves in old age. Currently, 82 per cent of people of Age Pension age receive an Age or Veterans Affairs pension.

Disposal and restructuring of assets and incomes in order to meet the means test are routine business for financial planners these days. So much so, that we have had to introduce legislation to catch people hiding assets and

income in trusts and companies in order to qualify for the pension. By 2050, it is estimated that 75 per cent of people of pensionable age will receive an Age Pension. Only one-third of Pensioners, however, will be on the full rate as a result of increased availability of the proceeds of superannuation.

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When most people receive at least some age pension, can we still call it welfare? I'm sure that most of the recipients do not consider themselves as 'on welfare'. Rather, they say: I've paid tax all my life; this is just getting what I've paid for.

Strictly speaking this isn't true. We don't have a contributory pension scheme. Ten years' residence in Australia, regardless of employment or tax paid, entitles an Australian resident to a full Age Pension. By international standards this is very generous. To get a full UK pension you have contribute for 44 years. If you haven't contributed, you are only able to get a lower basic level of income support.

## **WELFARE AND NEED**

We need to rethink the whole philosophy of our welfare and support

system. It is needs-based, not contributory, and yet we often think of it as if it were contributory. The fog that clouds our thinking on this matter is the idea of entitlement.

The dole recipient who may not have paid a cent's tax in his life feels he is giving up something of his own when asked to give up part of his dole when accepting a part-time job. The person with some means who bends over backwards with lawyers and accountants to access some pension is doing the same. So, too, the families who use their assets, skill and planning to get their kids on Youth Allowance.

Welfare is not charity—Australians accept it as a right—but our system is based on need, not contributions and we need to recognize the significance of that. When you draw the dole, you are not drawing down on a social insurance fund into which you have made payments. You are accepting assistance from other taxpayers while you are in need.

Our system is based on targeting assistance to where it is needed. If you have the means, you are expected to use them. If you can work, you are expected to look for a job. Unless we understand this, we will end up with a social security system that is unsustainable.

We will always have a strong safety net. It's there to save you from a nasty fall. The risk for us is if we start to treat it as a comfortable couch.

Kennedy may have had his problems, he may have had his variation on the Lewinsky affair, but he was right. We should ask not what we can get, but what we can give.

*Senator the Hon. Amanda Vanstone is Minister for Family and Community Services. This is an edited version of a talk she gave at the IPA on 4 June 2003.*

**IPA**

**REVIEW**

# Letter from London

JOHN NURICK

## The Chum Constitution

The press release from 10 Downing Street on 12 June was headed *Modernising Government—Lord Falconer appointed Secretary of State for Constitutional Affairs*.

At face value, government is indeed being modernized. The ancient office of Lord Chancellor will be abolished, and not before time. Simultaneously a politician and Cabinet minister, a judge, and the presiding officer of the upper house of Parliament, he is a walking affront to the separation of powers. He is in charge of the system for appointing judges and magistrates, and personally approves senior judicial appointments (though these are actually made by the Queen on the advice of the Prime Minister). There have been Lord Chancellors for nearly 1,000 years, and two of them have been canonized.

Mr Blair also announced that there will be a new 'independent Judicial Appointments Commission' and a new 'Supreme Court' to end the present situation where Parliament is both legislature and law court. The House of Lords will be allowed to choose its own presiding officer, and the Secretary of State for Constitutional Affairs will be just like any other Cabinet Minister.

That's the good news. After about half an hour, things started to fall apart. Why did Mr Blair announce these important constitutional changes out of the blue in the middle of a Cabinet reshuffle? Hardly anyone was consulted in advance; rumour has it that even the Queen didn't know the whole of it.

Incredibly, it seemed that Mr Blair and his advisers didn't know that it will take an Act of Parliament to abolish the Lord Chancellorship and reallocate its functions, and that the House of Lords cannot even sit without a Lord Chancellor. To keep the show on the

road, Lord Falconer has had to be given the job until he can abolish himself. For days afterwards, spokesmen and ministers contradicted each other and themselves over what the changes were and how they would work. We still don't know whether the judicial appointments system will be genuinely independent.

This sort of mess couldn't happen in Australia. The High Court may decide that the Constitution means something different from what it seems to say, but at least there's no dispute about the actual words or the procedure for amending them—or the need to consult and build cross-party support if you want to win the referendum.

But no-one actually knows what the British constitution says. There's no constitutional court, so there's no way to get an authoritative ruling on what is or is not constitutional. When there's something that looks like a constitutional crisis, the Cabinet Secretary (the equivalent of the permanent secretary of the Department of Prime Minister and Cabinet) and the Queen's private secretary and one or two others get together and work out what to do. Even where parts of the constitution have been codified, they are ordinary acts of parliament that can be overturned by a later government. It's been well said

that the British constitution is whatever the government can get away with.

You might think that a modernizing prime minister would want to do away with this grey area at the heart of the state. You might also think that the Secretary of State for Constitutional Affairs would be a constitutional expert. Forget it. Charlie Falconer was a high-earning QC before his chum Tony Blair gave him a life peerage and a succession of ministerial jobs (not even Bob Hawke could do that for his mates), but he's not a constitutional specialist.

That may not matter, because most constitutional issues are outside his remit anyway. The government's proposals for elected regional assemblies in England are being handled by the Deputy Prime Minister. Proposals for a European Union constitution? No, it's Foreign Office ministers who pretend that this will simply tidy up the existing European treaties and won't affect the British constitution. Whether to join the euro? That belongs to the mighty Gordon Brown at Treasury. Completing the reform of the House of Lords? That's right off the radar.

Cock-up theorists blame this dog's dinner, this Chum constitutional change, on fatigue and the fact that Mr Blair isn't actually interested in constitutional details. Conspiracy theorists suggest that he announced the changes knowing they were half-baked, in order to divert attention from something even more embarrassing, such as the failure to find weapons of mass destruction, or the growing public demand for a referendum on the EU constitution.

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

I P A

# Beyond Philanthropy Lies Compulsion

JIM HOGGETT

*'Corporate social responsibility is about more than philanthropy. It is about the role that global companies can and should play in addressing some of the deep inequalities between rich and poor countries.'*<sup>1</sup>

**A**LTHOUGH the annual flow of official aid to poor countries remains high (US\$68 billion in 2001), the level has tended to decline. Donor fatigue combined with disappointment at perceived waste and limited results are factors. But the demands remain strong for relief of famine and newer crises such as the AIDS epidemic.

To sustain the flow, non-government organizations (NGOs) have looked for new sources in the private sector. The concept of corporate social responsibility (CSR) is providing a convenient link and support in some campaigns.

CSR has recently been called in support of many causes. Environmental, social, labour and ethical campaigners have each asserted that CSR should be applied to their special interest. So, too, with health and overseas aid. These two causes have been neatly combined in the campaign by Oxfam, Save the Children and others to provide cheap medicines to poor countries.

## THE AMBIT CLAIM

The proposals put forward by Oxfam and others include:

- Global price-control to ensure cheaper drugs and vaccines in poor countries.
- Abandonment of company patent rights in those countries.
- Increased research and development into medicines of importance to those countries.
- Supervision of drug trials by the World Health Organisation (WHO).

Each of these demands involves a substantial direct financial sacrifice by

each major pharmaceutical company.

In parallel, pharmaceutical companies would be required to cease lobbying, and industrial countries would cease backing them. NGOs would be given a seat at the table and a say in policy.

This is only an outline sketch of a much more numerous and detailed schedule of demands which are being pressed upon companies, governments and international institutions.

The campaign stems from the continuing high death rates from preventable infectious diseases in poor countries. NGOs claim that cheap medicines are not commodities, but a right, and that it is the responsibility of pharmaceutical companies to supply that right.<sup>2</sup>

In the first assertion they are supported by the WHO which has declared that

Essential drugs (should) be available at all times in adequate amounts and in appropriate dosage forms and at a price that individuals and the community can afford.

These are sweeping assertions. They are partly intended to be met by governments. But they are also an attempt to create in poor countries an element of the public health system of the developed world at the expense of a narrow corporate segment.

Furthermore, as implied by the quotation at the head of this article, the purpose is much grander than cheap medicines. It requires that corporations enrol in the broader campaign of global redistribution of wealth and income. Concurrently, the NGOs would enhance their role and power in the process.

For corporations, 'beyond philanthropy' there lies a compulsory regime of transfers devised and supervised by largely unaccountable bodies.

## NOT ALL CHANGE IS PROGRESS

At face value the proposals are a deep extension of CSR in a narrow business sector to meet a universal need.

The *equity* of this is more than questionable. The burden of sacrifice would fall on the shareholders in the pharmaceutical companies. These are a small segment of society. The argument that they enjoy guaranteed exceptional returns is unlikely to be sustained. They are just as likely to see bad times as other sectors (see recent developments at Bristol/Myers Squibb, for example). They are also under pressure from less well-off consumers in the US where they derive much of the margin which covers cheaper prices elsewhere. Big margins are eroded eventually in the market.

The needs of poorer countries are numerous. They include pressing matters such as food and clean water which, if solved, would pre-empt much of the need for medicines. Transfers for these needs are generally made through government agencies. Any subsidy is met by the community as a whole in the donor country. French farmers are not compelled to sell their products directly at a discount to Africans. For that matter, nor are Australians.

The *efficiency* of the proposals is also suspect. Price controls based upon 'affordability' could not allow for the full cost of the product. Even if it were possible to maintain a sustained international two-price system (extremely doubtful), there would be a strong incentive to minimize supply in the much lower priced market. Lower

prices have been reliably found to reduce supply.

Such a system would also specifically discourage companies from investing in new drugs of the kind needed in poor countries.

Price controls have been almost universally inequitable, inefficient and doomed to failure.

The proposal to abandon the patent system so far as it applies to medicines in the bulk of the world's countries has far-reaching *structural consequences*. Intellectual property rights have been discussed intensively at the World Trade Organisation. Those who have the rights naturally don't want to give them away.

But it goes deeper than that. The system exists because it works. It provides the incentive to do expensive and risky research—the sort of research that produces wonder drugs. Only two in nine vaccines developed actually make it to market. It is estimated that 50 per cent of the final cost is risk elements (R & D, trials, demand).<sup>3</sup> If anyone can steal ideas, then few will go to the trouble and expense of developing them.

The *bureaucratic apparatus* required to direct this brave new world of cheap drugs should give serious pause to those potentially involved. The process would involve 'the global South', public interest groups, governments and international organizations. Gridlock is inevitable, even though the proposed exclusion of the manufacturers simplifies matters for everyone else.

It is sufficient to consider how the tower of Babel described above would deal with setting any price, let alone the effective distribution to the masses that could then afford it. In this process, the unit price would inevitably be driven down to a common point of agreement close to zero. The costs of this ineffective apparatus would be inversely proportional to its efficiency. They would be enormous, both for the continuing consultative processes and the global bureaucratic support.

The tragedy of proposals of this kind are that they are both costly and self-defeating. They also cause signifi-

cant collateral damage and are almost impossible to reverse.

'Beyond philanthropy' lies inequity and waste.

### THE LIMITS OF CSR

Corporate social responsibility must have limits to be meaningful. Many NGOs and others who should know better have wildly unrealistic expectations of the concept.

Unfortunately, some governments, including our own, have given weight to the expectations by making generalized exhortations for corporations to 'do more' for the community. Some 'ethical' funds such as Calpers, the Californian public sector pension fund, have put pressure on pharmaceutical manufacturers.

Corporations do make significant contributions to community causes well beyond their legal obligations. Pharmaceutical companies supply medicines at discounted prices, fund joint projects with public entities and have abridged some patent rights. But all this is within a voluntary framework which allows the company to protect its vital interests.

In the end, the principal responsibility of the company is to its owners and this is discharged by making profits. If it subordinates this priority to an outside interest it fails to discharge its trust. Ultimately, it fails to attract and generate the resources for survival.

More broadly, companies are part of a relatively free market system that has a proven capacity to create wealth and material well-being. Alternative, publicly supervised economic systems have created poverty without equity. CSR should not be used as a cover to fund the creation of a mandated private aid programme or to knock away some of the crucial props of the free market system.

### THERE ARE MORE EFFECTIVE RESPONSES

None of this is to imply that there is not a huge problem with disease. Many countries in the developing world have serious endemic diseases and weak public health systems.

Some answers have been suggested:

- Follow the example of successful countries. Uganda has halved the incidence of AIDS with a broad-based public health programme and existing cheap drugs.
- Make use of available generics which governments of developing countries can and do licence. Generics produced in Asia are generally a fraction of the price in the developed world. These have not always been promptly adopted.
- Continue the effort through international agencies. WHO was created for just the purposes underlying the 'beyond philanthropy' proposals. They may also be able to implement some of the strategies to reduce the risk of developing medicines for an uncertain market.
- Work through governments. They can at least ensure a measure of equitable burden-sharing and make some attempt at supervision. They also already subsidize research in some countries. They may be able to reduce the enormous costs of public liability litigation.

Beyond the band-aid of philanthropy as interpreted by many NGOs are the larger challenges of political and social stability. These are especially relevant in the poorest countries where endemic disease is hardest to tackle. Any proposal for reform that ignores the necessity for effective and uncorrupted distribution of relief in the form of medicines cannot be taken seriously.

### NOTES

- 1 Report by Oxfam, Save the Children and VSO, 'Beyond Philanthropy', 2002.
- 2 Oxfam, World Health Assembly briefing paper, 11 May 2002.
- 3 *McKinsey Quarterly*, 2001, No 4, 'Vaccines where they're needed'.

*Jim Hoggett is a Senior Fellow at the Institute of Public Affairs.*

**I P A**

# The Party's Over

DON D'CRUZ

**T**HE Red Cross has recently found itself the object of unwanted media scrutiny and negative publicity in relation to the \$14.3 million raised for its Bali Appeal.

The reasons for this are understandable. When the story broke in the media, some \$6.6 million, or 46 per cent of the funds raised, were either being spent on projects not related to the victims or held back with the potential to be spent on other projects. At that time, only 54 per cent, or \$7.7 million, had gone directly to the victims of the Bali bombing.

In Red Cross's defence, it has to be said that most of the money diverted to 'other' projects was spent on worthy projects—such as research on 'spray-on skin' for burns victims. The funds were definitely not squandered on junkets, political activism, talk-fests, or the excessive fundraising which is so prevalent in the foreign aid industry.

Nevertheless, the reaction of donors, the media, the public and politicians was savage. There was a widespread belief that more should have gone directly to the victims. An inquiry into the affair was announced by the NSW Government; there has been a flurry of adverse media stories, and there are reports that fundraising is in decline for Red Cross and other charities.

This was predictable. The tragedy struck home personally to many Australians. The Red Cross's Bali Appeal appeared to offer an efficient means of doing something positive; a means of combating the sense of powerlessness that many Australians felt after the bombings.

The Red Cross's woes were increased tenfold by the way it handled

the scrutiny. My own experience with Red Cross on this issue was one of stonewalling, obfuscation and half-truths. Many journalists experienced the same treatment, which only fuelled their desire for information and their skepticism about the organization and, indeed, the whole sector.

What went wrong? In short, the lack of transparency that masks the entire charity sector finally caught up with the Red Cross.

When foreign aid NGOs, such as the Red Cross, see a crisis or humanitarian disaster overseas, they use the imagery of suffering and misery as packaging for a fundraising appeal. Foreign aid NGOs are in the business of 'selling' disasters and crises.

Disasters and crises for appeals are the aid industry's most effective tools for raising money from the public. Disasters are also a great way to get extra cash out of the government, which sub-contracts these services to NGOs these days. Crises also give NGOs an opportunity to be portrayed in the media as 'doing good'.

The Bali Appeal differed crucially from appeals for Afghanistan, Iraq, Somalia, Ethiopia and countless others mounted by aid agencies. This time the victims and beneficiaries were not impoverished people in a far-off developing world nation; they were Australians who were aware of how much had been raised and how much they were getting. Most importantly, they had access to the media.

The point has to be made that if the Red Cross (which, by all measures, is one of the most open and best-governed charities in this country) has problems, the situation elsewhere in the industry is surely horrific.

The most striking part of the controversy was the absence from the

debate of groups such as Caritas, Care, Plan, Christian Children's Fund, Save the Children, World Vision and Oxfam Community Aid Abroad. None of these organizations, or the prominent public figures associated with them, either defended or criticized the Red Cross's handling of the matter. Their silence was particularly striking because these are organizations that usually have an opinion on everything, because they feel they should, irrespective of their expertise and competence to speak.

The non-profit sector has a number of fundamental characteristics that make good governance more difficult.

First and foremost, non-profits lack shareholders and aggressive external stakeholders demanding transparency and efficiency. They do not have stockbrokers and analysts combing through their books with an expert eye.

Up until the Red Cross controversy, the media tended to look at the sector as a source for news, not a subject for scrutiny in itself. Charities are governed by non-profit disclosure and fundraising laws at a State level, but these are very general and usually not enforced. The task of setting standards of behaviour and disclosure are left up to organizational 'insiders'—the board, staff and active members. In short, no-one with a critical eye from the outside is looking, and that has bred laxity, poor standards and abuse. And those within the industry who know the problems say nothing.

Disclosure standards in the non-profit sector are poor—particularly when compared with those applied to business and government. If, for example, businesses raise funds from the public, they must provide a

prospectus which details purpose, performance targets and the proposed allocation of funds. Failure to comply with the prospectus will usually mean prosecution by the Australian Securities and Investment Commission.

They must also report to investors on a regular basis against the detail of the prospectus. Non-profits almost never do so; indeed, the Red Cross has provided more detail on their Bali Appeal, albeit belatedly, than any recent fundraising drive. And the salient information only started appearing on their Website after the media started asking questions. Most charities provide detail in advance but no follow-up detail on their fundraising activities. In fact, most charities only provide promotional material about themselves—none of which is objective or detailed.

Many charities do not even provide the basic data required by law. For example, a recent survey of 112 Victorian charities found that 57 per cent did not disclose the cost of fundraising, including administration and marketing costs—data that are required to be disclosed by the Victorian *Fundraising Appeal Act 1982*.

Surprisingly, people were upset by the Red Cross's expenditure of 3.4 per cent, or \$400,000, on administrative costs. The truth is that this figure is exceptionally low. The Bali victims should be relieved that it wasn't Greenpeace raising money for them because Greenpeace has been known to spend as much 53 cents in every dollar raised on fundraising costs. And that does not include administration costs.

Another recent review of 22 not-for-profit (NFP) organizations undertaken by the Chartered Accountants found: limited reporting of organizational objectives; that the majority failed to explain their organizational structure and decision-making processes; inadequate disclosure of relationships with other organizations; limited use of statistical performance information; failure to disclose in-

vestment policies; inadequate disclosure of grant-making activities; and inadequate disclosure of risk-management approaches.

The organizations included in this survey were at the top end of the industry. They included Red Cross, Care, WWF, World Vision, MS Society and The Royal Flying Doctor. They had a combined income in excess of \$550 million; fundraising income of nearly \$250 million; the sup-

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port of governments and access to the best advice. They certainly could not blame their poor standards of accountability on a lack of resources and knowledge.

The poor standards of disclosure are not restricted to Australian-based operations. A recent study of the One World Trust assessed the accountability of a number of inter-governmental organizations, transnational corporations and international NGOs, including their international operations.

The study found that NGOs—including WWF, Care, Oxfam, and Amnesty International—ranked very low in terms of transparency and access to information. Indeed, they

ranked below many of the organizations which NGOs have long criticized—including the World Trade Organisation, the World Bank and the Organization for Economic Co-operation and Development, and such multinationals as Rio Tinto, Glaxo, Shell and even Microsoft. WWF, arguably the most influential green NGO in the world, ranked low on all criteria of accountability and transparency. Interestingly, the Red Cross was unique amongst the NGOs in being ranked high in all categories.

The second reason why good governance is difficult in this sector is that the industry tends to hide behind its halo—as if 'doing good' means that they are above scrutiny. They don't hesitate to use their apparent good standing to intimidate people who ask them tough questions. The public tends to believe that all charities are lean volunteer organizations run efficiently and effectively by 'do-gooders'. This is because that is exactly how the charitable sector likes to see itself. And this is the image that it misleadingly projects to the public for fundraising purposes.

The reality is that the large not-for-profit organizations are like the Red Cross—they are large, complex, multinational organizations run by well-paid staff. Greenpeace, Amnesty, WWF, Friends of the Earth, Care, Plan, Caritas, Oxfam Community Aid Abroad, World Vision, Save the Children are branch offices or franchises of big multinational NGOs that resemble multinational businesses in many respects—except they are less accountable, less transparent and have much poorer governance.

Up until now, this sector has believed that it can operate as it sees fit. It's time that this industry realized that the party's over.

*Don D'Cruz is a Research Fellow at the Institute of Public Affairs and Director of NGO Watch.*

**I P A**

# Education Agenda

KEVIN DONNELLY

## The Blair Agenda Downunder

In the *IPA Review*, March 2002 edition, I wrote an article arguing that Australian schools needed to be held accountable and that parents had the 'right to know' about school performance. The article compared what happens in Australia with the situation in England:

Unlike schools in Australia, where there are no official sanctions or rewards, English schools are evaluated and, if found wanting, face the consequences. Such transparency is the opposite to the situation in Victoria, for example, where the government refuses to rank schools or to make test results widely available.

Over the last 12 months or so, nothing has changed my belief that teachers and schools need to be evaluated in terms of how effective they are and that underperforming schools need to be given additional resources and face the consequences if they do not improve.

The reality is that, when compared to education in England and America, Australia is one of the few English-speaking countries left where educational success is measured in terms of money spent, instead of how well students learn.

Witness the speech given by Estelle Morris, former UK Secretary of State for Education and Skills at an educational conference held earlier this year in Melbourne. At the Association of School Councils in Victoria Annual Conference, Ms Morris argued that the Blair education initiatives had

clearly led to improved standards; in particular, with literacy.

While the Australian Education Union, and like-minded academics, argue against measuring school effectiveness, making results public and having inspectors carry out school reports the reality is that in the UK such measures are common

As noted by the former UK education minister, the alternative is to allow failing schools to continue unchallenged and to con-

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demn students, especially those already disadvantaged, to a secondary educational experience.

Central to the success in the UK is the fact that schools are largely autonomous and freed from excessive centralized and bureaucratic control. Individual schools have the power to hire and fire staff, to reward successful teachers and to set their own priorities within the context of the national curriculum.

In opposition to those arguing that increased accountability will only favour middle-class parents and schools from strong socio-economic areas, Ms Morris presents the counter-argument that doing nothing simply means that schools in less well-off areas fall further behind.

Of course, on first reading, it appears that Victoria's Education Minister, Lynne Kosky, agrees with the Blair agenda and that she also accepts that schools must be held accountable.

In her most recent keynote speech (entitled 'Framework for Reform' <http://www.det.vic.gov.au/det/resources/framework.htm>), Minister Kosky argues that the focus must be on outcomes and not simply on smaller classes and more resources.

The imminent restructuring of the Victorian Education Department also appears based on the conviction that educational success should be measured by improved standards and not simply by having more bureaucrats. This is critical if the Bracks Government is to reach the educational outcomes it has set in terms of participation and improvements in literacy and numeracy.

But, will Minister Kosky be able to deliver her vision and will the restructured bureaucracy be more effective? There are a number of reasons to suggest that, while the rhetoric about accountability and improved standards should be welcomed, the devil will be in the detail and Victorian students will still be placed at risk.

First, as education insiders agree, the Victorian education bureaucracy has suffered a significant

# The 'R' Files

ALAN MORAN

loss of senior personnel since the election of the Bracks Government. The 'corporate memory' has been lost and, as a result, millions are spent hiring consultants to fill the void (many of whom were once senior education bureaucrats).

The loss of 'corporate memory' and that fact that, over the last year or two, we have witnessed a revolving door as education CEOs come and go, mean that the system will not have the expertise, knowledge and skills to deliver the Minister's agenda.

Second, Victorian schools do not have the same freedoms as schools in the UK. While it is good to say to principals that they must raise standards, if the same principals are not given the freedom to hire and fire staff and to focus on their schools' strengths, then their hands are tied.

Third, while teachers' working conditions are controlled by a rigid and antiquated industrial relations system (that refuses to allow principals to reward better teachers with a differentiated salary system) then good teachers will continue to either run with the pack or, if they are motivated and ambitious, resign.

Finally, such is the control of the socialist-left faction of the Victorian ALP and the power of the Australian Education Union (both of which are opposed to the transparency and accountability represented by 'league tables'), that a Labor Minister will find it impossible to deliver an education agenda more in tune with the former Kennett Government's initiatives on education than the union-controlled Bracks Government.

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IPA

## Free Trade or Fair Trade?

### GAINS FROM LOWER TRADE BARRIERS

Reduced trade barriers have been key elements in the increased prosperity the world has seen in the post-1945 era. These lower barriers have allowed greater specialization of production, with consequent gains in cheaper goods enjoyed by all parties.

At the present time, the average tariff on imports into Australia is 3.8 per cent. In 1984/85 the tariff equivalent averaged 21 per cent for agricultural products and 13 per cent for manufactures.

The rapid reduction in Australian tariffs did not cause high levels of unemployment. Present levels of unemployment are lower now than they were during the mid-1980s.

### DRIVERS FOR LIBERALIZATION

Multilateral agreements under the GATT and WTO have been the leading arrangements bringing greater liberalization, but narrower agreements such as the European Union and Canada-US bilateral free trade have also been significant. For Australia, the bilateral agreements with New Zealand have made important contributions by allowing Australia and New Zealand to become, in substance, a single economy.

Unilateral, non-reciprocated trade reform also offers benefits—indeed, Australia's liberalization has in the main been of this nature, with tariff and other barriers



being reduced following reports of the Productivity Commission or its predecessors. These unilateral reductions have then been used as bargaining coin to seek concessions from other countries in trade negotiations.

Although trade liberalization works best if all parties participate, consumers gain from unilateral liberalizations even where others do not reciprocate. Such unilateral liberalizations also bring economy-wide gains by inducing a relative contraction or improved efficiency of the tariff reducing country's less competitive businesses. These outcomes allow more to be produced with the same labour, capital and other resources.

### BENEFITS OF LIBERALIZATION

Traditionally, trade benefits have been seen most clearly where countries have vastly different economic structures. Comparative advantage in different areas of production allows both countries to gain as a result of specialization.

This view of trade gains has been at the heart of the process over a long period—England sent manufactures to Australia and re-

ceived primary products in return.

More recently, the increased income levels stemming from the European Union (EU) have highlighted different forms of gains or, perhaps more accurately, a different view of the same gains. The EU gains were realized by countries with structurally similar economies.

The gains came from intra-industry trade—the trading partners appeared to be buying and selling goods that they already made in their home countries. The gains from this intra-industry trade following liberalizations between countries that have similar economic profiles have come from two directions:

- increased competitive pressures on suppliers that previously went less heavily challenged in their home markets; businesses facing increased competition usually lift their performance to the benefit of consumers in all participating countries;
- a variation of the traditional comparative advantage gains but one that takes advantage of the increased specialization of modern production and the increased number of stages through which materials are put prior to reaching the final consumer.

### **FAIR TRADE**

Over the years, there have always been calls for trade liberalization conditional on some measure of ‘fairness’. After all, it could be said that those countries that pay very low wages are at a trade advantage with high-wage countries such as Australia.

But a moment’s thought shows the deficiencies of this approach. For a start, it would deny market opportunities to countries with low income levels, opportunities that have been crucial to the subsequent growth and high income levels of countries ranging from Japan to southern Europe. And as we

have seen, trade liberalization has been accompanied by increased, not decreased, employment all round.

Moreover, once embarked upon, this road leads to a reversal of the trade liberalization that has served us so well. Thus it might be said that, with our vast agricultural land resources, Australian farmers have unfair advantages over European farmers in broad area crops like wheat. Similarly, with its abundance of easily won mineral wealth, Australia is not on a level playing field with mining operations in other countries. In both cases, many in importing countries would seek to equalize the competition by placing a penalty on Australian exports.

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***Nevertheless, there is a  
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from vested interests***

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More recently, some people have sought to use environmental or worker safety standards as conditions for permitting other countries to export to us. Although many championing such causes do so out of strong convictions, it means paternalistically imposing our own standards on other countries. And often supporting measures to restrict trade on safety or environmental grounds are those with a vested interest in maintaining a cushion against more com-

petitive suppliers. But the protected suppliers’ gain is the consumer’s loss.

Even seeking to use the fair trade weapon as a lever on manufacturers to lift employment conditions in poor countries where they operate is likely to backfire on the workers in those countries. Forcing higher wages is likely to mean industries migrate to other countries which are less susceptible to such pressures. The outcome is lost jobs in the targeted country, with the displaced workers having to accept far inferior conditions than those they previously experienced.

### **THE WAY FORWARD**

The call for fair trade is one of the factors thwarting further progress in dismantling trade impediments in global negotiations. The EU is a leader in using this negative weapon. In addition, under French influence, it has resisted any attempts to dismantle its notorious agricultural policies. These policies deny European market access to efficient producers such as Australia. The EU guarantees its own farmers high prices which also bring massive surpluses in many agricultural products. These are dumped on world markets and depress prices.

These developments have brought a hunt for alternative ways forward. Australia, like other countries, is exploring possible free trade agreements with individual countries. In our case, one with Thailand is on the cards, but the most important prospect is the USA.

This would integrate the Australian economy with the world’s largest and most technologically advanced economy.

Free access to the US market offers our manufactures and service providers the economies of scale they need to keep their costs down. For consumers, it means cheaper goods and services. These cheaper goods and services will in part be

due to direct imports from the USA. But overwhelmingly they will be cheaper domestic supplies resulting from producers achieving lower costs that competition forces them to pass on.

Australia's opportunity for a free trade agreement with the USA is the envy of many countries. Nevertheless, there is a usual chorus of dissent from vested interests.

Some vested interests, for example, the actors' union, want to see continued restraints on the employment of foreign artists in Australia. At present, there is a highly complex set of requirements on television stations and on those making TV advertisements to increase the Australian content from the levels that Australian consumers would otherwise opt for. This local content system is creaking at the edges because of technology advances and is likely to come under pressure in any case as the number of TV stations available to each household expands to the hundreds. Undeterred, the Australian Writers' Guild even wants to see the government forcing double the current requirements of locally produced drama onto the consumer.

Understandably, these protectionist dinosaurs see free trade with the US as a threat and would treat multilateral free trade with even greater hostility. Yet, the internationalization of Australian artists has opened up unheard-of opportunities for our local talent. Led by Russell Crowe and Nicole Kidman, our acting profession has achieved a global identity that nobody would have anticipated 10 years ago. Special privileges for Australian artists and TV programmes are unnecessary. They also bring increased costs that are passed on to Australian consumers in dearer products and services.

Because the international liberalization process in trade is being stymied, bilateral avenues for liberalization are the best way for-

ward. But bilateral agreements do bring dangers of reducing efficiency by diverting trade from the lowest cost supplier if another supplier is given an advantage. Fortunately, the nature of Australia's production makes this unlikely in the case of a trade agreement with the US.

Nonetheless, a proliferation of bilateral treaties automatically brings a greater complexity in the rules. For example, the proliferation of the US's free trade agreements has contributed to government procurement rules amounting to 300 pages compared to just seven pages for Australia.

### CONCLUDING COMMENTS

Australia's transformation into an internationally oriented economy with reduced trade barriers has turned us into one of the world's strongest and most prosperous economies. Further reductions in our trade restraints are the way forward.

The preferred route, multilateral trade agreements, is being shut off by those who seek to use trade negotiations as a tool of social and environmental policy. To accept this means stagnation. Setting a criterion of 'fairness' in trade means that the trade has to be managed. Some bureaucracy would need to sift through literally thousands of trade items across two hundred countries to give each product the elephant stamp of approval. Its decisions would contain the inevitable compromises and tit-for-tat favours which characterize all such negotiations. This would grind commerce down and, with it, living standards would fall in affluent and poor countries alike.

With the impasse in multilateral trade negotiations, free trade treaties with individual countries, especially with the USA, provide the optimal policy.

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

I P A

## Musing...

### Words and Meanings

by Andrew McIntyre

Words have meanings, and changes to these meanings are indicators of changing ideas. The 'grammar fascists' have long emphasized the power of words and have sought to replace 'offensive' words with ineffectual euphemisms (for example, 'husband' with 'partner', 'mother' with 'principal care giver'). A more subtle change is happening through the quiet mutation and enfeeblement of precious words.

Just think of the richly valuable word 'disinterested'. It is about looking at evidence, even passionately and interestedly, but then deciding what the evidence means without a personal bias or personal interest in the outcome. This meaning has now completely merged with that of 'uninterested'. Who is now surprised that the very notion of disinterested reporting from the media and the ABC is no longer the rule? Or that scientific research into the environment or GM foods could possibly be considered objective or 'disinterested' by the cultural gatekeepers?

The word 'progressive' has busily been mutating, too. It used to mean moving forward, proceeding step by step. But it has been taken on by the Left to describe itself. The Left, however, has become a conservative, conformist force, fearful of the future and of innovation, of scientific facts and of progress. The word has thus been captured and now stands for the very opposite of its original meaning. The 'progressive' Left is, in fact, seeking to move backwards, step by step. The real 'progressives' are the classic liberal descendants of Adam Smith, David Hume, and F.A. Hayek, proceeding forward, step by step, and correcting faults along the way—based on real experience.

Compiled by IPA staff, columnists and consultants ...

## KAFKA = EU

It was reported earlier this year in the *Daily Telegraph* that Lord Stoddart of Swindon asked the (British) Government how many regulations Brussels had issued since Britain joined the European Community in 1973. This means diktats which, unlike directives, are immediately binding. Lady Symons, the deputy leader of the Lords, gave year-by-year figures showing the total as 101,811. In answer to Lord Stoddart's request that details of these laws be made available, she said 'given the volumes of regulations involved, it would incur disproportionate cost' to inform members of the British Parliament what laws have been imposed by a higher level of government.

*Number Watch* ([www.numberwatch.co.uk](http://www.numberwatch.co.uk)) comments: 'So what they are telling us is not only are there over 100,000 laws that must be obeyed, but they are not going to tell us what they are. They are not even going to tell our representatives in Parliament. Not even Kafka, Orwell or Lewis Carroll came up with that one.'

## THE AGE WILL NOT WEARY THEM

Insight into the attitudes of readers of *The Age* can be gleaned from results of polls published on *The Age* Website. Not surprisingly, on the question of whether *Age* readers support or do not support the war in Iraq, we find that only 30 per cent were for, with 66 per cent against. On what should happen to Saddam Hussein if he were caught, a modest 25 per cent were for assassination, with 59 per cent for capture and to face a trial for war crimes.

Most revealing was the question of who they thought would be the

greater threat to world peace. North Korea? Only 11 per cent thought so. Iraq? No. Again only 11 per cent thought so. Al-Qaeda? Well ... no. Only 13 per cent for that terrorist group. So, who then, you might ask? The United States, of course, with 57 per cent of respondents saying yes.

But are *Age* readers worried about our security? Of course they are. To the question 'If Australia goes to war, who would you prefer as leader? John Howard, Simon Crean, Peter Costello, Jenny Macklin, Bob Brown, or none of the above, it has to be said that Howard did come out on top, albeit with only 31 per cent. But second favourite? You guessed it. Bob Brown with a handsome 24 per cent. Almost enough to make you worry about security, isn't it?

## GREENPEACE SPIN

John Passacantando, executive director of Greenpeace USA, reported in *Fortune* (17 March 2003) that Trader Joe's, a US grocery store chain, was an example of his group's working with companies to make them more ecologically sound. Greenpeace put pressure on Trader Joe's to stop carrying genetically modified foods and sent people to help them figure out how to make the transition. So far, so good. However, a letter to the Editor followed in the next issue from the Chairman of Trader Joe's telling another story. 'It is absolutely untrue that Greenpeace worked with us to do anything. We rejected their offers to guide us through the conversion of our products because we view their 'ends justify any means' approach as despicable. To now find Greenpeace telling the public that they are working with us or helped

us in any way is deceitful and outrageous.'

## MAD TO STAND

As a requirement to be qualified as candidates for the position of governor in East Kalimantan for the period 2003-2008, 34 candidates had themselves mentally examined at the Psychiatric Hospital in Samarinda. Based on the results of the examinations, all candidates were mentally healthy and had a sufficient level of intelligence.

According to Muhammad Najib, Head of the Sub-Section for Administration of the hospital, 'None of the governor candidates have any indication of psychological disorder or lunacy. However their craziness for wealth could not be detected here', he said laughingly.

## WHETHER OR NOT WEATHER

Last northern winter, the British media were trying to ignore the meteorological mayhem in America, but the BBC broke ranks and reported a politically incorrect record snowstorm. In Baltimore Maryland, all records for the last several hundred years were broken. In New York the storm was in the top five ever.

Michael O'Ronain, reporting to *Number Watch* complained. 'The snow is not stopping! I am seriously considering a protest rally at Columbia University. My sign will read: "What Do We Want? Global Warming! When Do We Want It? Now!" A second plan entails a class action law suit against the IPCC for not delivering on their promises.' Any takers?

IPA

REVIEW

# What's So Special About Universities?

JOHN ROSKAM

**I**S REFORM of Australia's universities the most crucial public policy question currently facing the nation?

In the midst of the dangers posed by terrorism, changes to Medicare, an overhaul to telecommunications law and other matters, higher education continues to be at the forefront of the Australian political debate.

The building of a 'Knowledge Nation' was the central plank of the ALP's policy for the 2001 Federal election, and in recent months the Coalition itself has unveiled its major reforms for the higher education sector. But if the rules of opportunity cost apply to public policy, can the attention being devoted to Australia's universities be justified?

If the country's politicians and media are arguing about higher education, what are they *not* arguing about? There most definitely is an opportunity cost to the approximately \$3 billion that the Federal Government provides to higher education (which does not include students' own contributions of around \$1.5 billion).

All of this is not to maintain that questions about the condition of teaching and learning in our higher education sector are not important—they are. But it is a question of priorities. The idea that a nation's economic and social well-being depends on what occurs in university laboratories and lecture halls is of recent origin. More precisely, the idea that what occurred there depends on how much

money taxpayers spent on higher education can be dated from the introduction of 'free tertiary education' by Whitlam in 1974.

(As has been pointed out by Andrew Norton in *The Unchained University*, the significance of this change has been overstated. Before 1974, around 75 per cent of students attending university were in receipt of some form of government scholarship. As Norton shows, even though the participation rate in higher education from students of low socio-economic backgrounds has been higher over the last few decades, their share as a proportion of total enrolments has not increased because of the huge influx of middle-class students into universities after 1974.)

The connection between government expenditure on higher education and whatever might be defined as 'a nation's economic and social well-being' is far from clear. Few of the 'spillover effects' and 'public goods' provided to the community as a product of university education have ever been demonstrated. Why, then, is there this obsession with higher education—an obsession which is by no means unique to Australia? Especially given that at the same time there is the absence of a vigorous national debate about the quality of schooling.

This is ironic given that school outcomes can be directly related not only to the condition of the community, but also to the life chances of individuals. Perhaps the single most important reason for the dominance of higher education

policy on the national consciousness is because of the view—shared by both sides of politics—that the 'solution' to universities is simple. On the Left, it is fervently believed that only the provision of hundreds of millions of extra dollars will alleviate the 'crisis' of our universities. On the Right, there is the argument that the solution lies in deregulation which, over time, will not only improve access as students are allowed to invest in their own education, but will also improve the quality of the tertiary sector.

Despite all of the changes that have been made to the country's higher education institutions since Menzies commissioned the Murray Report in the 1950s, as Alan Gilbert, the Vice-Chancellor of the University of Melbourne, said in 2001, 'there is no Australian university in the top 100 in the world'. Despite universities' calls for 'academic independence' they have acquiesced to the efforts of various Federal Government's to manage, regulate, and stipulate what universities do.

The policy position of the Left in relation to universities—more state intervention and more taxpayers' dollars—suits the general proclivity of many policy-makers in Australia to look first to government for solutions. The only problem is, as the proverb has it, 'if the only tool you have is a hammer, soon every problem begins to look like a nail'.

*John Roskam is an IPA Research Fellow, and teaches politics at The University of Melbourne.*

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## Summaries and excerpts from interesting reports

### YOU SAY TOMATO, I SAY TOMATINE

The US General Accounting Office has concluded that the health risks associated with genetically modified foods are equivalent to those posed by organic crops.

This comes as bad news for the organic food lobby, whose very legitimacy hinges on the necessary failure of GM technology.

Take tomatine, for example, an endogenous toxin found in both organic and GM tomato plants, but one which is only strictly regulated thanks to extensive testing procedures in the latter.

Consumers who prefer organic tomatoes may be putting themselves in greater danger by exposing themselves to unknown tomatine levels in their diet, and should thus rationally forgo their local organic grocer in search of a GM-friendly tomato stand.

Organic vegetables also pose a higher risk of carrying deadly *E. coli* 0157 bacteria. Since GM crops do not depend as heavily on natural fertilizers, they are less likely to harbour *E. coli* 0157 and are, arguably, safer to consume. Organic crops may also be exposed to as much or more pesticides.

GM crops, however, have been engineered to resist pests by producing natural toxins harmful only to targeted insects. Others have been designed to grow in harsher environments, where the usual suspects of pests cannot thrive. Such techniques have discounted the use of pesticides and diminished the impact of industrial-scale farming on the surrounding environment.

Yet, despite this evidence, GM food remains an object of scepticism, while organic crops continue to be touted as the healthier choice by left-

ist Luddites and Greenpeace activists. What likely matters most to the organic propaganda machine is not heightening consumer safety or maintaining environmental integrity, but increasing a profit margin.

What we need now, more than ever, is clear, balanced public debate on GM food before it is too late.

*Source:* *Agbioview*, 4 June 2003.

The author, Jason Lott, is a Marshall Scholar at Oxford University, England.

### IRAQ NEEDS PRIVATE COMPANIES

Companies, and lots of them, are exactly what Iraq (and indeed the whole of the Arab world) needs, say authors John Micklethwait and Adrian Wooldridge in their new book, *The Company: A Short History of a Revolutionary Idea*.

The authors explain that over the past 500 years, the much-vilified private-sector company has been the West's secret weapon in overtaking Islam:

- In 1500, Arabia was ahead of Europe in terms of its commercial development.
- The Prophet Muhammad, who was himself a trader, looked on commerce far more favourably than the Christian church.

Yet the Arab world—just like that other erstwhile commercial pioneer, China—failed to develop private-sector companies in the same way that the West did.

The Arab world's failure to adapt meant that it fell ever further behind the West. Islamic inheritance law—dividing estates among sons—made it difficult for partnerships to grow to a size where they needed outside

capital. The result is a region mired in stagnation:

- Leave aside oil, and the total exports of the major Arab countries are smaller than Finland's.
- Economies such as those of Saudi Arabia and Kuwait are dominated by nationalized oil companies that specialize in providing jobs and wealth for the ruling families.

In contrast, the liberal United States has 5.5 million companies while Iraq has none.

*Source:* John Micklethwait and Adrian Wooldridge, 'The Company Way', *Wall Street Journal*, 9 April 2003.

*For text* (WSJ subscription required): <http://online.wsj.com/article/0,,SB10498479982994400-search,00.html>

### PUBLIC COMPANIES GO PRIVATE IN RESPONSE TO NEW FINANCIAL REGS

The leaders of a number of small US public companies have decided to take their enterprises private. They are fed up with the slew of new financial regulations put in place earlier this year designed to trip up corporate wrongdoers. They are also tired of angry and often misinformed shareholders, as well as onerous record-keeping requirements.

- Among the largest, the drug-testing firm Quintiles; real estate investment trust National Golf Properties; electronic component maker CoorsTech; and fitness club operator Sports Club.
- Experts forecast the number of public companies going private to accelerate in the next few years—despite the requirement that companies going private must of-

fer shareholders as much as a 40 percent premium over market value.

Companies have always disappeared from public markets during downturns, but unlike previous privatization movements, this trend is being driven as much by the unintended consequences of regulatory reform as by market conditions.

- Consider that the reform legislation known as Sarbanes-Oxley can impose \$1 million a year in additional auditing and legal fees and other costs for public firms.
- Insurance premiums to indemnify new directors against potential liability have doubled in some cases.

The reforms have also slowed the number of initial public offerings as well, experts report. They also point out that a number of public firms are already so closely held that they are public in name only—and can easily be taken private.

**Source:** Jeremy Kahn, 'The Burden of Being Public', *Fortune*, 26 May 2003.

**For text:** <http://www.fortune.com/fortune/investing/articles/0,15114,450906,00.html>

**For more on Corporations:** <http://www.ncpa.org/iss/eco/>

## AIDED OUT

Flush with foreign-exchange reserves of some \$82 billion, India wants to be seen as a world power by shaking off the begging-bowl image and assuming the role of an aid donor itself.

According to a report in *The Economist*, it has already told 22 donor countries that it wants no more government-to-government aid once the present programmes finish. It is restructuring its \$54 billion debt bur-

den and plans, this year, to double its own \$600m–700m aid budget, adding African countries to existing Asian recipients.

The 22 donor countries provided \$600 million of India's total \$2 billion–\$2.5 billion annual aid income. They have now been asked to direct any future aid to non-government organizations. The chief aim of this change of heart is to cut disproportionately high administration costs on small aid budgets—countries such as Norway and Sweden.

Multilateral agencies such as the World Bank are excluded from the changes. So are six bilateral donors that include large payers such as Japan and Britain, and diplomatically sensitive countries such as the United States and Russia. These donors might also be asked to switch their focus, but it could be a decade more before the World Bank and the UN Agencies are asked to go home.

**Source:** *The Economist*, 21 June 2003.

## HOW THE WEST GREW RICH

Did the West enrich itself at the expense of minorities and the Third World through its distinctive crimes of slavery and colonialism? The widely held view, says writer Dinesh D'Souza, is 'yes'. Thus some are demanding reparations for slavery, and Third World extremists believe they are poor because the West is rich.

However, there is nothing distinctively Western about slavery or colonialism

- Slavery has existed in every known civilization, from China to pre-Columbian America, but what is uniquely Western was the movement to abolish it.

- Although the institution of slavery in the West was oppressive for the slaves, their descendants benefited because it brought African-Americans into the orbit of Western freedom.

- The same is true of colonialism, by which Western ideas such as democracy, self-determination and inalienable rights came to Asia, Africa and South America.

Paradoxically—and unintentionally—the descendants of those who endured servitude and foreign rule are vastly better off than they would have been had their ancestors not endured captivity and European rule.

If oppression and exploitation did not make the West rich and powerful, what did? The answer is that the West invented three institutions that never existed before: science, democracy and capitalism.

- The scientific method—which means experimentation, and verification—was a Western invention.
- Capitalism—which implies property rights and courts to enforce them; free trade and stock exchanges; credit and double-entry bookkeeping—developed in the West.
- Tribal participation is universal, but democracy—which requires elections and peaceful transitions of power; separation of powers, and checks and balances—is a Western institution.

The real cause of Western wealth and power is the dynamic interaction of science, capitalism and democracy, which created a commercial, technological, participatory society.

**Source:** Dinesh D'Souza (Hoover Institution), 'How the West grew rich', *Washington Times*, 17 June 2003.

IPA

# Book Review

## God Bless America

Gary Johns reviews

### What's So Great About America

by Dinesh D'Souza

(Penguin Books, 2002,  
218 pages, US\$15.00)

Dinesh D'Souza is an Indian boy made good in America, an immigrant success story. He has a great deal to be grateful for, but, he argues, so does the rest of the world. After the tragedy of September 11 2001, the US faces the classic dilemma of free peoples, 'how to articulate the blessings of freedom ... and how a society accustomed to the pleasures of private life can prevail against a more militaristic regime ... whose fighters are cheerfully willing to endure death'.

His plea to the US is to take seriously its enemies. After Afghanistan and Iraq, he no longer has to worry on that score. The US has its critics, such as the Europeans who worry about a unipolar world, and their place in it, and Islam, whose objections are moral. Islam questions whether legitimate political authority comes from God or man, indeed, whether reason or revelation is a more reliable source of truth. There can be no more fundamental objection to American civilization.

In the face of such a determined critique, D'Souza directs his attention to America's internal enemies, the intellectual left and its primary vehicle, multiculturalism. 'Multiculturalists seek to fill white Americans with an overpowering sense of guilt

and blame so that they accept responsibility for the sufferings of minorities in America and poor people in the rest of the world'. He wants to convince these people that there is something great and noble about America, and having convinced them, to join him in defence of modernity, against Islam.

The favoured vehicle of the multiculturalists is oppression theory—ethnocentrism, colonialism, imperialism and racism. It is a favourite theory of the multiculturalists because it allows them to account for 'the disjunction between their dogma of cultural equality and the reality that cultures are far from equal'. He argues, of course, that there is nothing especially ethnocentric about the West; any old tribe is ethnocentric, including and especially Islam. The West, on the other hand, has gained immensely from the absorption of ideas and inventions of other cultures. Its great achievement is the ability to transcend ethnocentrism.

If ethnocentrism is not Western, what about colonialism? Dinesh reminds his readers that the British were the eighth or ninth colonial power to invade India, and certainly the most beneficial. Although it may not have been their intention, the colonialists brought to India ideas and systems that immeasurably enriched the lives of the descendants of colonialism. Slavery, in particular, is not unique to Western colonialism, but what is distinct to the West is its abolition! As for the West growing rich and powerful by exploiting everyone else, the fact is that before British rule there were no rubber trees in Malaya, nor cocoa trees in West

Africa, nor tea in India. Spices did not make the West wealthy!

D'Souza relates a story of a Sri Lankan postgraduate student who attended one of his lectures on America. The student: 'Am I supposed to tell my people that America is the best and that they are *shit*?' D'Souza suggested to the student that he would not state it in those terms, but, clearly, much anti-Americanism among intellectuals from the Third World is a way to salvage pride. Colonialism and imperialism are not the cause of the West's success; they were a result of that success.

Dinesh suggests that science, democracy and capitalism are the reasons the West became the dominant civilization in the modern era. These three institutions are an immense challenge to the enemies of the West. To beat the West, they need to take advantage of these features. If they take advantage, they will no longer be non-Western.

D'Souza concludes with a flourish, 'America is the greatest, freest, and most decent society in existence. It is an oasis of goodness in a desert of cynicism and barbarism.' I think he is mistaken; he is really referring to the West as a whole, or perhaps the Anglosphere. We can forgive him his enthusiasm for the US, but those gifts of many cultures, nurtured and perfected by the West—science, democracy and capitalism—are not America's alone. We are grateful, nonetheless, that the US is their champion.

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REVIEW