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From the Editor

MIKE NAHAN

Having pushed governments to their democratic limits, Green groups and other activists are now increasingly focused on leveraging the corporate sector to achieve their regulatory ends.

While the process is clothed in references to community, to morality and to transparency, it has more in common with the tactics of the Mafia. And the process poses a major threat to our economic system. More importantly, it threatens the rights and the livelihoods of workers, shareholders and many millions of Australians saving for their retirement.

A major test case of the strategy is currently being played out in Australia with the Wilderness Society's (WS) campaign to stop Tasmanian timber company Gunns Ltd from logging old-growth native timber.

For more than ten years the native timber industry has been the subject of an intensive process of investigation and consultation through the regional forest agreements (RFAs). The aim has been to reach agreement amongst stakeholders upon competing uses of the forests. The RFA in Tasmania was finalized in 1996 and resulted in a huge reduction in native forest open to logging; a plan to phase out logging of 'old growth' forests and a strategy designed to shift the timber industry from native forests to private plantations.

The WS—a small, loose group of anti-logging activists—was involved in the RFA process and achieved much of what it wanted. The community itself, however, decided not to ban logging of old growth timber immediately as



demanding by the WS. Rather, it chose to phase out logging of this timber over a number of decades to allow time and to generate funding for the move to private plantations.

As a result of this process, Gunns Ltd has what other firms would die for: strong bipartisan community support, resource security guaranteed by a joint Act of the Commonwealth and Tasmanian Parliaments, and a union militantly on side. Indeed the process has been a model of community consultation and sustainable development.

Unable to achieve their aims via this process, WS launched a corporate campaign against Gunns, using the full range of tactics at its disposal. The campaign, however, has been decidedly unsuccessful to date—largely because Gunns is close to the real stakeholders.

WS resorted to a slander campaign against Gunns' management. While this usually works against the management of large corporations, it has proved ineffective against the down-to-earth Tasmanians who run Gunns. WS tried to demonize Gunns' brand name, with little success. WS

also spread rumours that Gunns' logging practices were financially ruinous; the reality was that Gunns has proven to be one of the stockmarket's star performers.

Unable to get traction against Gunns in Tasmania, WS refocused its campaign on Gunns' financial backers in Melbourne and Sydney. As part of this campaign, WS succeeded in getting an extraordinary general meeting of Gunns' shareholders held on 29 August to vote on a proposal to immediately stop logging in old growth areas. The proposal was accompanied by research generated by WS which predicted that the proposal, if accepted, would reduce earnings per share by 11 per cent and increase the riskiness of the Gunns' earnings profile. Gunns provided research which showed that the impact of the proposal would be greater. The Tasmanian Government has also made it clear that if Gunns did not fulfil its contract to log the trees in question, the contract would be let to another firm. So, even if the motion were passed, it would not stop the logging.

The proposal was rejected overwhelmingly (50 million against; 250,000 for). However, two major funds management firms—BT Funds Management and Unisuper—abstained from the vote. In other words, two large super funds decided not to express an opinion on behalf of their unit holders on a decision that would have a material negative impact on the company's profit and which would not stop the logging of the trees in question.

Why would trustees of super funds not take action to protect the returns to unit holders?

REVIEW

Well, Westpac, which now owns BT, has apparently adopted a strategy of dancing with the activists under the guise of being a socially responsible corporation. It has, effectively, not just embraced, but become an advocate for, most of the activists' strategies, from ethical investment to triple bottom-line accounting. As a result, it has been deemed by the activists to be 'number one' on ethical corporation rankings.

Westpac's rationale is commercial and it is not alone in this [see Don D'Cruz's article, pages 27–28]. Multinational corporations are flooding their NGO partners with money and stakeholder status.

Westpac has come to the conclusion (as have many other big firms) that, in the end, the values and wishes of activists will probably prevail and that even if they don't, they must be catered for.¹ The activists' influence amongst target markets and their capacity to damage a firm's reputation are simply too great to ignore. Moreover, there is money to be made from being friendly with them. Not only are activists willing to embellish the firm's brand and help lobby governments for mutually beneficial legislation, but many of them are very wealthy.

As part of this strategy, BT appears to have heeded WS's warning that 'Westpac would be judged by its success in preventing Gunns Limited from logging old growth forests'. In the end, it decided to sit on the fence between its shareholders and its owners' new stakeholders, and abstained from voting, claiming insufficient information to make a decision. It probably took the stance it did safe in the knowledge that WS's proposal would be overwhelmingly rejected.

The flaw in the Westpac strategy and that of its many fellow travellers, is that there are trade-offs between the values and aims of its real stakeholders and the new

stakeholders, and by law and by right the firm's priority lies with the former. This is particularly the case with Gunns. The decision was not taken by Westpac but by BT. BT, as a super fund manager, has a fiduciary obligation to give sole consideration to the financial interests of its unit holders. Westpac has no right to override or interfere in this relationship. Westpac and BT's relationship with WS should have no bearing on the decision. The decision of BT not to vote on the motion is arguably in breach of its trustee's responsibilities.

Unisuper was more culpable. It exists solely by government fiat. All academics are forced by law to place a specified percentage of their salary with Unisuper. They have no choice but to join and limited choice about leaving (before retirement age). As with BT, Unisuper has a fiduciary obligation to its unit holders. The motion in question pertained to a clear material threat to unit holder returns. Unisuper's rationale for abstaining, 'that the company and its stakeholders do not appear to have pursued all opportunities to resolve their differences through constructive dialogue and consultation' was both wrong and immaterial.

Moreover, Unisuper gives its unit holders the option to choose so-called ethical funds. However, those unit holders with equity exposure to Gunns elected not to take the ethical fund option. Unisuper in effect ignored their rights and preferences in favour of the activists'.

When the existing mandatory super system was established in the early 1990s, it was recognized that it would create a huge pool of funds (currently about \$600 billion) which would attract an army of rent-seekers attempting to mobilize the funds for their own purposes. The main concern at the time was the unions and their

influence over industry super funds. To date, the unions have in the main behaved properly and given due priority to maximizing returns to unit holders—though the ACTU has been making noises for years about using its influence over the super system for industrial purposes. The Gunns case shows that the real threat to the super system and our financial future comes not from the unions but the so-called ethical investment lobby and its relationship with flaky trustees and big banks, such as Westpac.

The threat to both BT and Unisuper lies with aggrieved unit holders taking legal action for breach of fiduciary responsibility. Such an action would be in the interests of all Australian superannuants and should be undertaken.

Unfortunately, the Tasmanian community has no redress against BT (except perhaps by boycotting Westpac and BT) or Unisuper. Indeed the Gunns case study highlights the false nature of much of the debate on corporate social responsibility. While these funds claim to act in the interests of the local community and sustainable development, in reality they often act directly against these very aims.

Luckily for Gunns and its stakeholders, well-managed firms which are structurally insulated from the influence of false stakeholders such as WS will not face a shortage of low-cost investment. Indeed one suspects that Gunns points the way to the future for resource-based industries—be local, be close to your real stakeholders, be focused, be profitable and keep fake stakeholders at bay.

NOTE

1. 'The Social Responsibility of Corporations', Leon Davis, Chairman, Westpac Banking Corporation, Menzies Research Centre, Melbourne, May 2001.

I P A

Why Ireland Boomed

JAMES B. BURNHAM

THE great economic success story of the past ten years has been the Republic of Ireland. At the end of the year 2000, Ireland could look back on fourteen years of uninterrupted economic growth, which had accelerated to nearly 10 per cent annually in the closing years of the 1990s [Table 1]. With this growth came markedly lower inflation, one of the lowest unemployment rates in the European Union (EU), and a growing government budget surplus. Most dramatic, however, was the return to Ireland of young workers in increasing numbers to fill new jobs awaiting them at home.

Contrast this happy state of affairs with that of the mid-1980s, when the unemployment rate reached 17 per cent, emigration soared, the government's finances were a shambles, and submission to a draconian International Monetary Fund (IMF) programme was considered as a means of getting the economy back on track.

How did the dramatic turn of events come about? What lessons, if any, might the Irish events teach others? In this article, I examine the sources of the apparent transformation of the Irish economy. How much

was the result of conscious, far-sighted government policies? To what extent did historical trends or external events play a part?

The analysis here demonstrates that the adage 'fortune favours the well prepared' applies especially well to the Irish case. To be sure, Ireland had been well prepared by virtue of sound, sustained policies in matters such as taxes, education and telecommunications. These policies, though improvements, were not revolutionary by any standard, nor were they part of a grand, overarching plan. Even when dramatic results followed from the adoption of market-oriented measures, as in the case of deregulation of Ireland-United Kingdom air routes, the lessons were not applied with vigour elsewhere in the economy. In short, Ireland illustrates how large the pay-offs from better policies can be in a few critical sectors in the presence of favourable external factors.

STARTING POINTS

The Republic of Ireland is a small, relatively new nation on the western edge of Europe. After emerging as the Irish Free State in 1922, following a long history of conflict with Great Britain, it promptly plunged

into a civil war that lasted until 1923. At that time, the population included fewer than three million people and was dwindling. The new nation's desire to demonstrate economic 'self-sufficiency' as well as political independence contributed to the adoption of inward-looking, protectionist policies.

By the mid-1950s, the hopelessness of the situation, combined with the emergence of the Common Market (even though Ireland was not a member at the time) brought about the first significant change in government attitudes. Foreign investment, particularly in exporting industries, was made welcome. The effort to entice foreign, in particular American, investment in Ireland began to show measurable results by the end of the 1960s. During that decade, 350 foreign companies were established and rapidly became leaders in the export sector.

Ireland's long-anticipated entry into the Common Market in 1973 (along with the UK) set in motion important structural and psychological changes for the country at all levels. The immediate impact was a boom in agriculture as Irish exports gained free entry into a vastly expanded market at attractive prices. Between 1972 and 1978, real farm income rose more than 40 per cent, and land prices soared.

Foreign investment continued to grow, although not without problems. By some measures, the record of the 1970s constituted an improvement over that of the previous decade. Nevertheless, Irish economic performance, compared with that of other European countries, was well below average.

Table 1: Measures of Irish Economic Performance, 1981-2000
(Average Annual % Change)

	1981-86	1987-93	1994-2000	2000
Real GDP	2.1	4.8	9.0	10.2
Unemployment Rate	13.8	15.2	9.5	4.2

Source: OECD 1999, 2001; Central Statistical Office 2001.

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If analysts were gloomy at the end of the 1970s, they had even more cause to lack optimism throughout much of the 1980s. However, the necessary underpinnings for the extraordinary expansion of the 1990s were gradually being put into place. One highly visible initiative was a drastic change in fiscal policy in the face of extraordinarily high unemployment rates and growing concerns about the country's finances. In 1987, a new (minority) government took office. Much to almost everyone's surprise, it engineered substantial cuts in planned spending and abolished some cherished government agencies.

A noteworthy element in the new government's programme was an amnesty offer for delinquent taxpayers. The result was a IR£500 million windfall (approximately US\$750 million) against a forecast of IR£30 million and an effective broadening of the tax base. The effective implementation of the government's budget was an important step in bringing its precarious financial affairs under control, shoring up the country's reputation among foreign investors, and setting the stage for reductions in marginal tax rates for both individuals and corporations in the 1990s.

GETTING IT RIGHT

At the same time that fiscal policy was finally moving in a constructive direction, efforts to tackle the country's most-pressing infrastructure problem began to bear fruit. In 1980, Ireland's telecommunications system was perhaps the worst in Western Europe. Operated as a government department, it was vastly overstuffed, its equipment was antiquated, its service was erratic, and its charges for both domestic and international calls were among the highest in Europe. It was the subject of regular questions in the Dail (Parliament) from members representing small towns that had been seeking community pay phones for a year or more (residential installations typically took even

longer). Customers were required to prepay a year's fixed charges.

Even more ominously, foreign investors' complaints had become more severe, as such users compared service in Ireland with that obtainable elsewhere in the EU. Factories had extreme difficulty in keeping telex lines open to their customers and to their home offices, charges were ex-

In short, Ireland serves as a valuable case study to illustrate how large the payoffs can be from better economic policies in the presence of favourable external factors

cessive, and billing was chaotic. In this situation, the Industrial Development Authority [IDA], established in the 1950s, became an important lobbying force for change, emphasizing to ministers, mandarins in the Department of Finance, and parliamentarians in the Dail the linkages between creating new jobs and upgrading a primitive telecommunications system.

The Irish government, however, chose to rock the boat as little as possible. In 1979, it committed itself to a major capital-spending programme designed to achieve 'state-of-the-art' service. Equally important, in 1980 responsibility for telecommunications services was removed from the Post Office Department and given to an independent entity, An Bord Telecom which,

in 1984, was transformed into a self-financing state enterprise, Telecom Eireann. A leading businessman, Michael Smurfit, was appointed to control the new organization, and he immediately secured the services of the senior IBM manager in Ireland as CEO. Together, they set clear, aggressive goals for service levels, debt reduction, and profitability that drove the organization throughout the 1980s.

By 1988, the government could tell the members of the Dail that international service 'had been improved to such a degree that it is now a major contributing factor to present day successes in wooing foreign firms to our shores'. By the end of the decade, Telecom Eireann had established itself as a recognized leader among European telecommunications entities, especially with respect to international services and charges, although the company remained a state-owned monopoly that guarded its privileges jealously.

A major necessary ingredient for the boom of the 1990s now had been put in place. In arriving at this point, the managers at Telecom Eireann had not simply responded to IDA and to their sophisticated, demanding customers in the export-oriented industries. The European Commission was laying out a long-run plan for greater competition in the telecom sector that Ireland would have to follow. As Smurfit noted in the 1988 and 1989 annual reports, Telecom Eireann could not afford to rest on its laurels but would have to become more flexible in advance of competitive challenges sure to come in the near future.

DISCOVERING THE MAGIC OF THE MARKET

A quite different approach, with spectacular economic results, followed from the one significant step toward deregulation that Ireland took in the 1980s: the breaking of Aer Lingus's near monopoly on cross-channel flights to England. In 1984, the government proposed legislation ►

to restrict the discounting of air fares in order to protect the state-owned airline. However, it decided at the end of 1985 to take precisely the opposite approach with respect to Ireland-UK routes: it adopted full decontrol of both fares and flight frequencies.

The impact of Ryanair's subsequent entry into the market was dramatic: its unrestricted fare of IR£95 amounted to a 54 per cent reduction from Aer Lingus's IR£208. Advanced fare purchases gave travellers a saving of as much as 75 per cent. The overall market expanded dramatically: passenger volume on the Dublin-London route increased 65 per cent between 1985 and 1987, in contrast to growth of only 3 per cent between 1980 and 1985. Sea fares between Ireland and the UK were also affected, falling 40 per cent in real terms between 1987 and 1995 and thus generating a substantial increase in marine travel.

The broader economic impact of deregulation was impressive. An Irish government paper estimated that over the period 1987 to 1993, deregulation generated a 60 per cent increase in visitors, additional tourist earnings of £560 million, and an additional 25,000 jobs. English tourists and Irish immigrants in the UK alike responded to the lowered costs of transportation to Ireland; businessmen at both ends found that the cost of developing markets across the Irish Sea had been reduced suddenly and drastically.

One other important change was taking place gradually during the 1980s: the expansion and reorientation of state-funded higher education. By 1993, the share of science and technical graduates in the 25 to 34 age group of the labour force in Ireland was the highest of the 25 OECD countries. In 1996, 66 per cent of those in the 25 to 34 age group were graduates, in contrast to only 30 per cent of those in the 55 to 64 age group. This change represented an improvement well in excess of that experienced by the

average OECD member. The growing percentage of university graduates has shown a similar pattern.

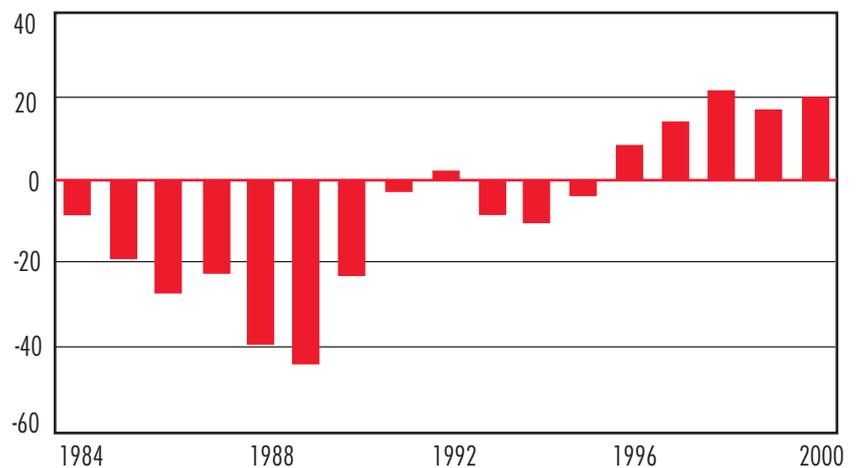
It is important, however, to view changes in the state-run educational system as *enabling* factors in the acceleration of economic growth in the 1990s, not as causal factors.

For Ireland, yearly estimates of net migration provide a graphic picture of the 1990s and a measure of economic performance [Figure 1]. The first half of the 1990s saw a halt to the substantial outflows of the late 1980s. Then, in the second half of the 1990s, for the first time since the early 1970s, a sustained inflow oc-

curred as job opportunities in Ireland became abundant. This change is reflected clearly in the pattern of employment growth. A comparison of Irish growth and the EU average highlights Ireland's exceptional and sustained performance in job creation [Figure 2].

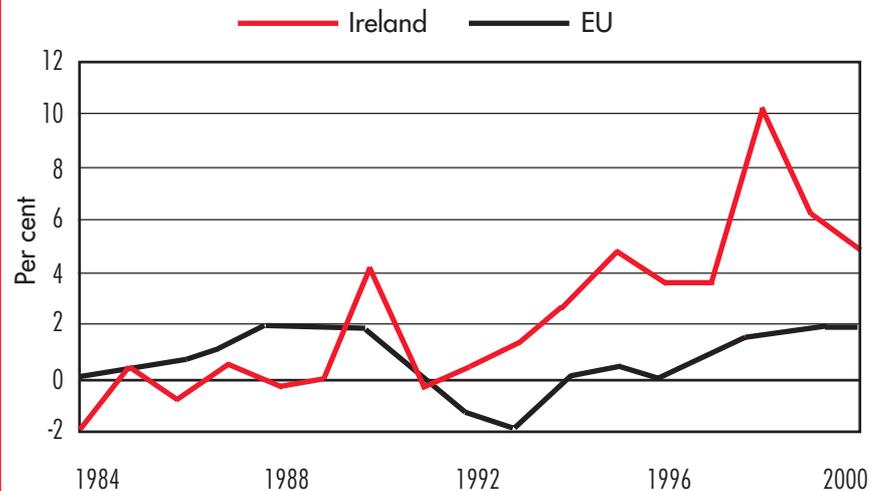
Foreign-owned firms continued to account for the bulk of new job formation in the 1990s, although indigenous firms, particularly in the software sector, also recorded substantial job gains. Surveys by the government business development agency Forfás suggest that nearly 70 per cent of employment gains in the

Figure 1: Ireland: Net Migration, 1984-2000 ('000s)



Source: Central Statistical Office 2001. Data for 1997-2000 are preliminary

Figure 2: Employment Growth, 1984-2000 (% change over prior year)



Source: OECD 2000.

1990s took place in foreign-owned companies. Fifty-one per cent of the job gains took place in internationally traded and financial services. Clearly, Ireland benefited to a disproportionate extent from the US and global investment boom in the computer, software, and telecommunications industries.

SOURCES OF THE IRISH BOOM

It is useful to classify the factors bringing about the Irish boom of the 1990s into three categories: (1) inherited factors, over which the Irish authorities of the past two decades had little near-term control; (2) policy factors, for which the authorities were largely responsible; and (3) external events. It is also useful to distinguish between factors responsible for initiating the boom and those responsible for sustaining it.

Of all the inherited factors, demographic variables probably have been the most important. Extremely high birth rates (by European standards) until recently have made Ireland an exceptionally 'young' country. Previous out-migration also turned into a plus factor as job opportunities, particularly in the high-technology areas, expanded in the 1990s. Trained information technology graduates who had left the country for jobs in the 1980s now returned, in many cases to start their own firms.

A second inherited factor is an attitudinal one: a relative openness to foreign investment, particularly from the United States. Although elements of tension always have been present, Ireland has erected far fewer formal and informal barriers to large-scale foreign investment than most European countries. This openness—along with the legacy of language and a common-law legal system from England—has contributed significantly to a high degree of comfort for investors and expatriate management, especially those from the United States.

Among the policy decisions that have played critical roles in recent Irish growth are four 'structural' initiatives: (1) the early decision to adopt low corporate profit tax rates (and then expand their coverage) to encourage foreign investment; (2) the more recent emphasis on reducing the effective tax rates on individuals; (3) the establishment of the Regional Technical Colleges and the choice of RTC curriculum; and (4) the investment programme and the restructuring of the telecommunications system in the 1980s. Each of these 'supply-side' steps was a necessary precondition for the boom of the 1990s.

A fifth important policy decision affecting the 1990s boom was the significant change in government fiscal policy in 1987, described earlier. That policy was instrumental in reassuring foreign and domestic investors. It provided evidence that the country was not taking the road to a 'banana republic' status.

The impact of the unexpected, whether good or bad, in countries' economic performance is often underestimated. For Ireland, the catalytic event over which policymakers had no control was 'the death of distance', beginning in the late 1980s. This phrase, which first appeared in *The Economist* in 1995, refers to the fact that over a short period of time modern technology (and fierce competition in the marketplace) essentially has eliminated distance as a cost factor for data, images, voice, music, engineering or architectural drawings, books, control of instruments or machinery—anything of value that can be created and 'digitized' or transmitted electronically. The death of distance had a disproportionately favourable impact on Ireland because the country was well situated and well prepared to take full advantage of it. (Recall that 51 per cent of the jobs gained during the 1990s appear to have been in internationally traded and financial services, where telecommunication is a critical factor.)

CONCLUSION

In many ways, Ireland's economic performance in the 1990s can be summed up in the aphorism 'fortune favours the well prepared'. A technological discontinuity, which brought about plummeting costs in telecommunication services, was the chance element completely external to Ireland. Although it seems highly probable that the country would have performed satisfactorily (at slightly better than the 4 per cent growth rates experienced in the 1960s and 1970s) without such an event, it is difficult to see how a rate twice that high could have come about without the direct and indirect impacts of the telecommunication revolution.

Being well prepared to take advantage of this technological discontinuity was largely the happy result of prior decisions centring on education and telecommunication investment, combined with significantly improved government tax and spending policies that encouraged investment and work. These decisions were largely piecemeal and driven more by pragmatism than by a widely shared consensus on redefining the role of government. Historical trends and decisions also contributed to Ireland's propitious preparation: demographic patterns, the legacy of English law and language, and a series of decisions going back to the 1950s that opened the economy to foreign trade and investment and culminated with entry into the Common Market in 1973.

In short, Ireland serves as a valuable case study to illustrate how large the payoffs can be from better economic policies in the presence of favourable external factors. The lessons learned may have particular relevance for smaller countries and for regions within larger ones, where the dependence on 'external markets' is extremely high and monetary policy in large part is determined elsewhere.

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IPA

ABC Journalism ... One Huge Humanitarian Crisis

TIM BLAIR

IDENTIFYING one's sources is an elemental part of journalism. It's a measure either of the ABC's incompetence or evasiveness that during the war in Iraq, the ABC often smothered the leftist credentials of many of its sources with general terms such as 'distinguished' and 'renowned'. Listeners or viewers unaware of the backgrounds of those interviewed may be excused for thinking these sources were neutral experts whose commentary bore no political slant.

The ABC's habit of non-revelation also serves to conceal the broadcaster's tendency to draw its commentators from the Left. Tellingly, conservative sources cited during the war were identified as such; although, even more tellingly, they were rarely actually interviewed. Let's look at some examples:

George Monbiot, the anti-capitalist activist, was presented as an 'author and columnist with the *Guardian* newspaper in the United Kingdom' when he appeared on *Lateline* on February 5.

On February 14 *Lateline* introduced socialist Phillip Knightley as a 'distinguished journalist' and an 'investigative reporter'.

Similarly, no ideological identification was applied in *Lateline*'s February 19 description of socialist Labour MP Glenda Jackson, who was introduced as 'the former minister for transport' and a 'distinguished ... actress'.

Socialist Tariq Ali was merely a 'Pakistan-born author and *Guardian* newspaper columnist' during his appearance on *Lateline* on March 3. When he appeared on *Lateline* on March 28, Ali was an 'author and historian'.

On March 7 *The World Today* tagged leftist Tony Judt as 'an expert in US-European relations'.

Marxist Scott Burchill became a mild 'lecturer in International Relations at Melbourne's Deakin University' when he appeared on *PM* on March 13.

American leftist Max Sawicky was described only as 'a senior economist at the Economic Policy Institute in Washington' during a March 27 appearance on *The World Today*. Drop by his website (<http://maxspeak.org/gm/>), however, and you'll get a better idea of his politics than that provided by the ABC. It features an image of George W. Bush and Dick Cheney as, respectively, the Straw Man and the Tin Man from the Wizard of Oz.

All recited anti-war views. Why were none presented with any brief description of their political allegiances, which would have given ABC consumers a better idea of their general perspectives? It's not as though the ABC is opposed to such a practice; when conservatives were mentioned, it was with that label, or a variation of same.

On March 7, *The World Today*'s John Highfield labelled pro-war Fox News presenter Neil Cavuto as 'the conservative business show host'.

Pat Buchanan was dubbed a 'renowned right-wing commentator' by Highfield during *The World Today*'s February 24 edition. Incidentally, neither was interviewed. Then again, neither was leftist filmmaker Michael Moore, whose error-filled anti-US film *Bowling For Columbine* Highfield referred to in passing on March 25 as 'Michael Moore's Academy Award winning documentary [about] how

Lockheed Martin was moving into more civil areas.' No 'left-wing commentator' tag for him.

That the ABC draws so many of its commentators from the Left may demonstrate how the oft-referred to 'ABC culture' functions. It is entirely possible that producers, researchers, and presenters are simply unaware of commentators from the Right who may have offered informed conservative (or centrist) perspectives on the war in Iraq.

It isn't difficult to compile a substantial list:

Canada's Mark Steyn, who writes for *The Spectator* and *The Daily Telegraph* [UK] among other journals, wrote some of the most compelling (and entertaining) pieces to be published during the conflict. Andrew Sullivan, a former editor of *The New Republic* and a contributor to *The Sunday Times*, published daily war commentary on his (enormously popular) website. Any of the *The Weekly Standard*'s array of columnists would have been useful. Syndicated US columnist Charles Krauthammer may have declined interviews following his treatment at the hands of ABC *Late Night Live* host Phillip Adams in 2002, in which Adams produced a follow-up newspaper column to his interview with the Washington-based conservative that completely distorted his views. *Guardian* columnists David Aaronovitch and Julie Burchill offered distinctive and challenging (too challenging, apparently) takes on the anti-war movement and celebrity peace activists; either may have provided something of a counterpoint for the ABC's extensive interviews with human shields and other partisan voices.

The ABC sought out many Leftist commentators in the UK and US during the war; why so very few from the Right, or even from the pro-war centre? The list continues: David Frum, Mickey Kaus, Michael Kelly (killed in Iraq while covering the war), Jonah Goldberg ...

In Australia, *The Age's* Pamela Bone wrote a series of columns in which she wrestled with her decision to support the war. Given that her stance probably reflected a wider debate among people inclined to agree with the broad aims of the war on terrorism, a series of interviews would have been valuable.

It's excruciating to note that the ABC, with all its resources, did a poorer job of covering the ethical and philosophical debate over the war than did, for example, many one-man Websites (which, in several cases, argued ably against positions expressed on the ABC). Pro-war commentary on the ABC was left mostly to government and military officials.

Instead of covering an actual debate, the ABC obsessed over a phantom: the ever-elusive 'humanitarian crisis' the broadcaster expected to arise in Iraq. *The World Today's* Eleanor Hall didn't merely expect it; to her, the crisis was inevitable, as she revealed on a February 14 broadcast:

ELEANOR HALL: Well, as the divisions continue, the United Nations is warning it's not even close to being prepared for the humanitarian crisis that will inevitably follow war in Iraq.

Inevitably, as with most ABC predictions about the war in Iraq, a humanitarian crisis did not follow the conflict. By February 21, *Lateline's* Norman Hermant had Iraq 'on the verge':

NORMAN HERMANT: Iraq could also be a country on the verge of a humanitarian nightmare. There are reports an estimated 5 million people will need immediate food aid if a war involves widespread bombing. It's an indication the task of rebuilding Iraq could be as difficult as destroying the regime.

It's an indication of the ABC's anti-war agenda. John Highfield, on a February 25 edition of *The World Today*, at least noted that a humanitarian crisis was only a possibility:

JOHN HIGHFIELD: And on the other side of the world as the international powers play out the saga of Iraq, in our part of the world it is the potential for humanitarian disaster which is occupying international aid agencies like the Red Cross.

The resignation in March of Senior Analyst with the Office of National Assessments Andrew Wilkie allowed

It's excruciating to note that the ABC, with all its resources, did a poorer job of covering the ethical and philosophical debate over the war than did, for example, many one-man Websites

the ABC to return to its 'humanitarian crisis' concerns. *PM* reporter Louise Yaxley was among then first on the ABC to cover the story, on March 11:

LOUISE YAXLEY: I can quote to you some of the things that he's told the *Bulletin's* Laurie Oakes. He says his main concern is that Saddam Hussein could engineer a humanitarian disaster. It says: 'We know of his programme to relocate his sensitive assets in civilian areas next to schools and so on. He's also got a number of options up his sleeve. He could create a humanitarian disaster to overwhelm coalition forces. He might create a humanitarian disaster to

cause such outrage in the international community as to force the US to stop.'

Host John Highfield described Wilkie's prediction—which, of course, never eventuated—as 'another brick in the wall of criticism' against the war. Yaxley agreed: 'Here he is going public with his concerns about a potential humanitarian disaster being created because of any war against Iraq. So it will give further strength to those who argue that there shouldn't be a war against Iraq ... this will, if anything, give heart to those who are organizing protests around the country, those who say the Prime Minister and the line the Government has taken, are wrong.'

The ABC, in other words. *The 7.30 Report* on the evening of the 11th gave Wilkie another platform for his inaccurate theories:

KERRY O'BRIEN: Were you disturbed yourself by what you found by the assessments you made?

ANDREW WILKIE: Yes. Yes. I was disturbed during my research when I came to realize what a high likelihood there is of a humanitarian disaster.

AM on March 12 continued pushing Wilkie's theme. Linda Mottram introduced Wilkie's interview with Catherine McGrath:

LINDA MOTTRAM: He says he hopes his public comments will help open debate on the proposed war, which, on the basis of his work at the Office of National Assessments, he says could end in a military or humanitarian disaster ...

CATHERINE MCGRATH: If war goes ahead, if next week Australia is at war as part of this military coalition led by the United States, how do you think at the moment things are going to play out?

ANDREW WILKIE: A war at this time is just not worth the risk. I think there is too great a risk of a military or humanitarian disaster ...

Wilkie has lately stopped talking about humanitarian disasters, because on that subject there is simply noth-

ing to talk about. Back on March 17, AM host Linda Mottram was convinced that a crisis was inevitable:

LINDA MOTTRAM: Britain is concerned to see that after a war, Iraq's oil is administered by a UN trust fund, which would finance the reconstruction and massive humanitarian effort required.

Such an effort would only be required if there was, in fact, a humanitarian crisis that needed to be addressed. Oh, but it was looming, as *Lateline's* Tony Jones promised on March 20:

TONY JONES: The United Nations is warning that up to two million people may be forced to leave their homes now that the bombing has begun. Some Iraqis have already begun crossing into Jordan, while others have been blocked at the Syrian border. At the same time, aid agencies are desperately trying to raise money to deal with a looming humanitarian crisis.

It's not enough to claim that because the UN was warning of a crisis that the ABC was correct in repeating those warnings. The scepticism that invariably met announcements from the US, UK, and Australian governments was altogether absent when dealing with UN reports. *Lateline* reporter Lisa Upton turned the UN's speculations into a solid guarantee:

LISA UPTON: It's one of the most inhospitable places on earth, and soon this Jordanian land will be a makeshift home for tens of thousands of Iraqi refugees.

We're still waiting. Kerry O'Brien on that night's *The 7.30 Report*:

KERRY O'BRIEN: ... the humanitarian problems may not be able to wait until the war is over ... Aid agencies are warning the longer supplies are delayed, the greater the scale of a potential humanitarian crisis..

AM's Linda Mottram, on March 20, remained certain of the need for humanitarian relief. Here Mottram introduces reporter Tanya Nolan's interview with retired US Air Force Colonel Sam Gardiner:

LINDA MOTTRAM: On the eve of war, there is deep concern that there is nowhere near the capacity available, either on the part of occupying forces or relief agencies, for the kind of humanitarian relief that's likely to follow.

TANYA NOLAN: The decorated veteran of three conflicts and former NATO adviser often uses the word 'painful' to describe his concern over what he says is America's lack of preparation for the impending humanitarian fallout in Iraq.

The ABC sought out many Leftist commentators in the UK and US during the war; why so very few from the Right, or even from the pro-war centre?

'Painful' is a good word to describe the ABC's coverage, which remained on-message over the next few days:

AM, March 21:

LINDA MOTTRAM: International aid agencies are warning of a humanitarian catastrophe as the war unfolds.

AM, March 21:

MARK WILLACY: Well Linda, we've got groups like the United Nations and the International Red Cross warning of a humanitarian crisis ...

The World Today, March 24:

JOHN HIGHFIELD: Well, as we focus on the military war in Bagh-

dad, the humanitarian battle that the aid agencies have been warning of has begun ... the self-professed 'liberators of Iraq' could soon be presiding over a mass disaster ...

AM, March 25:

LINDA MOTTRAM: But now, with more than half the Basra population without power and clean water for around four days, the United Nations is warning of a humanitarian crisis ...

PM, March 25:

JONATHAN HARLEY: It seems the city [Basra], well, it has been laid to siege and you've got this critical situation where the city's cut-off, it's got no water and it is brewing as a huge potential humanitarian crisis ...

Lateline, March 25:

TONY JONES: Over one million people are facing a humanitarian catastrophe in the southern city of Basra.

On May 4, on the ABC's *Correspondents Report*, the humanitarian crisis that never was finally came to an end. Host Hamish Robertson, introducing an interview with Morten Rostrup, the International President of Médecins Sans Frontières, reported that MSF 'is afraid that countries with real humanitarian crises are being ignored because the international media switched all its attention to the war in Iraq.'

MORTEN ROSTRUP: And it's pretty telling, that if we believed in the notion that there is a huge humanitarian catastrophe in Iraq, at the same time we cannot identify the needs during our rapid assessments, I think you have to stop off and ask about the notion of a huge humanitarian crisis.

Sound advice. The ABC would have done well to have stopped and asked about this notion two months earlier.

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I P A

REVIEW

GM Fish and Chips? Already an Australian Staple!

JENNIFER MAROHASY

IN A slavish genuflection to self-appointed consumer guardians, Australian governments are currently placing barriers in the way of commercial food production based on GM crops.

This is in spite of the fact that Australians have been eating fish and chips cooked in cottonseed oil derived from GM cotton for over 5 years! But this fact has not stopped nationwide moratoriums on the commercialization of GM canola varieties (the source of most of the rest of our vegetable oil).

It is also in spite of the fact that Australia's Gene Technology Regulator concluded that a Bayer Crop Science variety of GM Canola is as safe to human health, safety and the environment as non-GM canola. This conclusion was made after six years of field trials, extensive evaluation and public consultation. It is also in spite of Food Standards Australia and New Zealand deeming this canola to be as safe to eat as conventionally produced canola.

Vegetable oil produced from GM cottonseed and GM canola is identical in chemical composition to non-GM oils because all genetic material is denatured in the refining process. Because the end products are chemically indistinguishable, the perceived health risk issues were always going to be issues of perception rather than reality.

Nor is there a basis for concern with cross-contamination in the field. A detailed study undertaken by the Cooperative Research Centre for Australian Weed Management showed that, even under the strictest

testing procedures, the requirements of anti-GM buyers would be met with the risk of pollen transfer between GM and non-GM canola crops shown to be less than 0.07 per cent.

The final official approval from the Office of the Gene Technology Regulator should have paved the way for the commercial planting of GM canola. However, moratoriums on the commercial planting of GM food crops recently introduced by State governments in Western Australia, South Australia, Tasmania, Victoria and New South Wales in response to the potential Federal Government approval for plantings of GM canola have prevented this. There is no moratorium in Queensland, but Queensland does not have a suitable climate for commercial canola production.

In the case of the NSW moratorium on GM food crops introduced in July this year, the legislation was supported by both sides of politics and the NSW Farmers Federation. Interestingly, in the associated media release, the Agriculture and Fisheries Minister said the passage of the bill was a victory for farmers and consumers. The Minister acknowledged that 'health, environmental and safety issues relating to GM food crops are already covered by federal regulations', but indicated that the moratorium was necessary because of marketing issues.

Although marketing has been repeatedly cited as a reason for the moratoriums, a report by the Australian Bureau of Agricultural and Resource Economics (ABARE) concluded that farmers would have no trouble selling GM grains (including

canola) overseas, and that exports of non-GM grains would not be harmed by fears of 'contamination'. The report indicated that GM producing countries (including Canada and the United States) dominate world grain trade, accounting for 79 per cent of world maize exports, 69 per cent of soybeans, 53 per cent of cotton seed and 42 per cent of canola. The percentage of the market held by GM producing countries is predicted to increase as the world area harvested to GM broad acre crops increases. Australian canola producers risk being shut out of these opportunities and losing market share.

At the forefront of the anti-GM canola campaign have been Greenpeace, the Australian Conservation Foundation (through their Gene Ethic Network) and a group of farmers known as the Network of Concerned Farmers. These groups have repeatedly and falsely referred to GM canola as the first GM food crop to be considered for commercial production in Australia. That the NSW Government gave in to their demands for a moratorium and at the same time provided exemptions for commercial cotton production on the basis that cotton is a non-food crop is hypocritical and highly misleading.

Fully 35 per cent of our vegetable oil is from cotton seed, and given that 30 per cent of the current cotton crop is genetically modified, it is reasonable to assume that about 10 per cent of our vegetable oil is derived from genetically modified plants. An increasing proportion of the cotton crop will be planted to GM cotton and a correspondingly higher percentage of vegetable oil will be GM derived. ▶

Furthermore, by ignoring cotton as an important source of vegetable oil and promoting GM canola as the first GM food crop, the NSW Government has played directly into the hands of those seeking to invoke the precautionary principle and instil public fear. The idea that something is 'a first' suggests that all decisions have been made on the basis of the hypothetical—on theoretical laboratory experiments and theoretical risk assessment reports.

Some Federal Government organizations also appear to be happy to play along with the pretence. The questions in the Biotechnology Australia surveys of consumer attitudes to GM food failed to make the distinction between foods containing GM material and food derived from a production system that involves genetic modification. But the Federal Government is not being transparent or consistent, failing to then take these issues into consideration when it devised its labelling rules—vegetable oil derived from GM cotton is exempt from GM labelling because the refining process destroys all GM material.

The confusion and hypocrisy surrounding the regulation of GM food and GM food crops is not confined to Australia. While the Europeans have a moratorium on the production of GM food crops, they import 6 million tonnes of soybeans per year from the United States, of which approximately 80 per cent is GM. This GM product is crushed with the soybean oil sold as vegetable oil for human consumption, while the remaining soybean-meal is typically fed to animals in feedlots. At the same time, through their aid organizations, the Europeans are seeking to maintain a moratorium on the planting of GM food crops in Africa, and some groups have supported boycotts that have effectively limited the distribution of GM food aid in Africa.

We don't have famine in Australia. In fact we have a diversity of abundant cheap food thanks in large part to science and our liberal democratic society—Australian farmers

have secure property rights and the opportunity to experiment and to develop modern farming technologies. Are we now about to regress on the pretext that we are unsure about the implications of a technology which we are already successfully using?

The anti-GM lobby is ideology driven, global and formidable. How did GM cotton achieve regulatory support for commercial field production? In the mid-1990s, the cotton industry was organized and united in its approach to the introduction of the new technology. There were no cotton growers publicly demanding

The reality is that over the last three years, Greenpeace and the Network of Concerned Farmers have run a relentless media campaign against the introduction of GM canola

supply-chain segregation between non-GM and GM cotton. The industry had secured its markets for both lint and cottonseed. In addition, the first plantings of GM cotton predated the launch of the anti-GM Greenpeace campaign and the formation of the Network of Concerned Farmers—at least in Australia.

The reality is that over the last three years, Greenpeace and the Network of Concerned Farmers have run a relentless media campaign against the introduction of GM canola. Over the same period the Biotechnology

Australia surveys have shown that the general public's concerns about GM foods have increased and this has been attributed to the campaigning. Yet both Greenpeace and the Network of Concerned Farmers must know that we are already eating vegetable oil derived from GM cotton! The conspiracy of silence is presumably to maintain the illusion that we are dealing with a new and unproven technology.

Anti-GM crusaders have successfully played to public concerns about GM foods to block the introduction of commercial plantings of GM canola. They have used the false pretext that GM canola would represent the first commercial GM food crop in Australia—when we produce just under 1 million tonnes of vegetable oil from Australian-grown cotton each year. Like vegetable oils derived from canola, this cottonseed oil contains no GM material because all proteins are destroyed in the refining process. Indeed, the parallels between cotton and canola are such that the success of GM cotton should have smoothed the way for the introduction and commercial planting of GM canola. Instead, Cotton Australia has played along with the conspiracy of silence and not spoken up and told the public that we have been eating fish and chips drenched in GM cottonseed oil for about 5 years. Presumably they recognize the global strength of the anti-GM lobby and fear a backlash. Yet, in reality, GM cotton has been a global success and is a real-life example of a GM food we are currently safely consuming while the Australian environment benefits from reduced pesticide applications.

So, according to the conspiracy of silence, when is GM food not GM food? When it is Australian vegetable oil derived from the successful non-food crop known as GM cotton.

Dr Jennifer Marohasy is the new Director of the IPA's Environmental Unit.

IPA

REVIEW

'To Join Interest with Duty'

GARY STURGESS

AROUND the same time as the Pitt administration in England decided that it would deal with its prison overcrowding by sending large numbers of convicts to Botany Bay, the political philosopher Jeremy Bentham came up with an alternative solution.

Bentham proposed that a prison be constructed in London using the very latest technology. It would be commissioned by central government and managed by a private contractor. The father of Utilitarianism named his imagined prison 'Panopticon' and he recommended that Jeremy Bentham himself be appointed as its operator.

Bentham argued that well-written and well-enforced contracts could be used to align the self-interest of the private sector with the public interest—'to join interest with duty, and that by the strongest cement that can be found.'

Two hundred years later, contracting has made a strong return. Public-private partnerships are now being actively pursued in much of the English-speaking world and in a number of countries in Europe and Asia as well.

And, once again, the question is being asked: Are private companies capable of having a public service ethos?

TRUST IN PUBLIC SERVICES

What are the concerns with private sector involvement in the delivery of public services? By and large, the problem is not efficiency or effectiveness but public trust. This is an extraordinarily complicated subject, so let me simplify it massively by reducing it to three issues:

People versus systems

There is a natural tendency of human beings to recognize and identify with other human beings. People are inclined to trust other people in preference to institutions or systems. And they are more inclined to trust people who work with people (doctors and nurses) than people who work with systems (managers and bureaucrats).

As a result, individual public service workers are usually more trusted than the institutions for which they work—in the UK, doctors are trusted much more than the National Health Service, judges and police officers more than the criminal justice system.

This preference for people over systems is probably very old, but over the past 50 years, right throughout the Western world, there has been a marked deterioration of trust in large-scale institutions.

Performance versus motives

The public generally believes that the private sector is more efficient than the public sector. By and large, they don't need to be convinced that—where performance can be measured—the private sector delivers better outcomes than government, particularly when it is exposed to competition.

But in many public services, judgements about performance are difficult for ordinary folk to make, since outcomes are complex, contingent or inherently conflictual.

In these circumstances, the public tends to rely more on the motives of people and organizations rather than measured performance. Monsanto may be highly effective in developing genetically-modified foods, but since it is virtually impos-

sible for me to understand the long-term consequences, I am inclined to place much greater reliance upon their motives.

Public accountability

There is a very close association between accountability and trust. At the most basic level, the public sector is seen as being more transparent and more open to external scrutiny.

Public services are also thought to be more accountable because they simplify an otherwise complex world and, in some cases, provide us with agents to negotiate with the system on our behalf. They are also seen as part of a wider democratic system which increases the likelihood that service providers will reflect the values of the diverse range of citizen/users.

THE PUBLIC SERVICE COMPANIES

The real question is whether it is possible to create conditions under which private sector providers will pursue the public good in the normal course of business. Public-private partnerships are such a recent phenomenon that one might conclude there are not enough case studies to undertake such an inquiry. And yet there is a long history of what might be called 'public service companies' from which lessons might be learned.

Settlement companies: Joint stock corporations were widely used in governing the British Empire, starting with the East India Company which, from 1834 until 1858, had no business other than that of public administration. At the close of the nineteenth century, southern Africa, east Africa, the Niger and parts of Borneo were at different times administered

by joint stock corporations under parliamentary supervision.

Company towns: These experiences contributed to a rich British and North American tradition of proprietary towns and suburbs—well-to-do urban communities (Leicester Square in London and Gramercy Park in New York), nineteenth century company towns (Bournville and Saltair in England and Pullman in North America), and the garden cities of early twentieth century England (Letchworth and Welwyn).

Infrastructure companies: Throughout Britain and in parts of Europe and North America, private firms played the leading role in the development of urban gas and water, street lighting and lighthouses, roads and bridges, canals and waterways, railways and tramways, telegraphs and telephones.

The first public railway in the world—privately owned but public in the sense of taking passengers for a fee—was the Stockton and Darlington Railway in northern England. The motto of the Stockton and Darlington was ‘periculum privatum, utilitas publica’ (‘at private risk for public service’).

Public services: A diverse range of public services have been delivered by profit-making enterprises over the years or by non-profit organizations established by groups of profit-making firms. One could mention police patrols and environmental regulation, criminal detection and prison management, fire-fighting and ambulance services, tax collection and postal services, road management and municipal services.

The East India Company set new benchmarks in public administration. The term ‘civil service’ is itself taken from the East India Company, as are principles such as merit selection.

WHY DO PRIVATE COMPANIES DO PUBLIC GOOD?

As it turns out, the notion that self-interest can be made to serve the public interest is not such an unfamiliar concept after all.

This was Adam Smith’s great insight—that when markets work well, self-interested individuals will serve the good of the wider community without ever intending to do so. Of course, there are numerous conditions under which markets fail, but even among the most cynical of observers, there is recognition that society as a whole has profited from the self-interest of entrepreneurs such as Thomas Edison and John McAdam.

We are also familiar with this concept in government. The checks and balances of the Westminster system do not depend on a wide dissemination of the higher virtues, but merely on the self-interest of competing ministries, competing political parties and, in federal systems, competing governments. Out of this contest and challenge comes greater transparency and a greater responsiveness to the rich variety of interests in society.

Bentham argued that well-written and well-enforced contracts could be used to align the self-interest of the private sector with the public interest—‘to join interest with duty...’

So what are the conditions under which the self-interest of the private sector can be harnessed to serve the public good?

In Markets

When the public interest largely coincides with the interests of the consumer or service user. When the interests of the consumer or service user are dominant, then the wider public interest

can largely be addressed through taxation and regulation. The public does worry about the profit-motive even in market transactions, although in the UK, research has consistently shown that some private sector organizations (such as Halifax Building Society and Marks & Spencer) command higher levels of public trust than some governmental agencies.

When government fails to respond adequately to the public interest. When government fails to recognize the public interest in a particular service or for other reasons fails to adequately respond, private firms have sometimes been able to fill the gap. The ‘penny post’—usually regarded as a groundbreaking initiative of the British Post Office in the nineteenth century—was first introduced by a private entrepreneur, William Docwra, in the late seventeenth century.

In the United States, Wells Fargo provided a competing postal service throughout much of the American West between 1855 and 1895. The customer willingly paid more knowing that he was getting greater speed, greater security and greater convenience.

When there is large-scale risk or investment in technological innovation. There has also been much less concern about private sector involvement in the delivery of public services when bold technological innovations have been made and where public service companies have been prepared to accept high levels of risk.

That is the reason why the private sector has played such an important role in the development of new infrastructure. Today, we are inclined to take reliable street lighting and urban water supplies for granted, but in seventeenth century London, these were frontiers of technological innovation.

Communities

When the ‘public’ consists of a small enough community to capture the benefits of investment indirectly. In some cases, the ‘public’ in question is a relatively small community and investors

are able to capture sufficient returns through indirect benefits. This is the reason why local landowners, merchants and manufacturers were prepared to invest in turnpikes and railways, and urban gas and water supplies, particularly in the early years.

It is also the reason why ship-owners invested in lighthouses, insurance companies set up their own fire brigades, and fishermen on the Hudson River established their own 'river-keeper' to track down and prosecute industrial polluters (including state and municipal enterprises).

When free-riders can be excluded and costs can be recovered for local public goods. It has often been argued that local public services must be financed out of general taxation because of the problem of free-riding. And yet there is a rich history of company towns and private neighbourhoods where remoteness (as in the case of mining towns), the ability to exclude (as in gated communities) or the imposition of rental charges by a residual property owner have enabled communities to overcome this problem.

Contract

When self interest happens to coincide with the public interest. In some cases, the self-interest of a public service company just happens to coincide with the wider public interest.

One of the best explanations as to why the management companies have had such a major positive impact on the 'decency agenda' in UK prisons, is that it was in their commercial interest. As it turns out, it is less expensive to treat prisoners decently.

For example, in the privately managed prisons, prisoners are given the keys to their own cell. This increased the prisoners' sense of self-worth—their privacy and security—but it also brought down costs since officers did not have to spend as much time locking and unlocking cells.

When performance incentives work. Performance incentives are what Jeremy Bentham was talking about when he wrote of joining interest

with duty. Through a well-written and well-managed contract, government can make the public interest my private interest. The reason why the corporate finance division of a City bank is acutely interested in the welfare of prisoners hundreds of miles

There appear to be a number of conditions under which the self-interest of the private sector can be harnessed to serve the public interest on an ongoing basis

away is that there are serious financial consequences if their clients fail to measure up.

When there is commercial value in having a reputation for public service. Public service companies tend to have little by way of tangible assets, so that to a very large extent, the value of the company is determined by its reputation. If it were to compromise that reputation, the company would fail to win new contracts or renew existing ones and the capital markets would quickly discount the value of its shares.

When employees are motivated by a professional ethos. One of the mistakes that critics often make is to assume that front-line workers engaged by the private sector are strongly motivated in their day-to-day activities by concerns about profit and loss.

A couple of years ago, the Institute for Public Policy Research (a centre-left think-tank in the UK), conducted qualitative research with a number of front-line workers in public and private hospitals, in an at-

tempt to get a better understanding of the public service ethos.

Nurses employed in private hospitals were deeply offended at the suggestion that they behaved differently because they were not working for the NHS - 'You nurse exactly the same in the private sector'; 'To me the patients were patients, that's it. You nurse them all the same'; 'It doesn't matter where we work now—a nurse is a nurse. You're a caring professional.'

It is this sense of public service and professionalism that motivates the nurse in a private hospital (or in a privately-managed public hospital). Quality private sector managers understand this and seek to harness that ethos to deliver better services.

CONCLUSION

One of the many reasons why governments have turned to the private sector over the years was 'plausible deniability'—government could take the credit if things went well, but if anything went wrong then the private sector would wear the blame.

There is little doubt that profit-making firms are capable of having a public service ethos. And there appear to be a number of conditions under which the self-interest of the private sector can be harnessed to serve the public interest on an ongoing basis.

But in order to capture these benefits, governments must step away from a narrow procurement agenda and look to the much more interesting challenge of building a diverse ecology of socially-responsible public service providers. In the UK, the Blair Government has begun to take up this challenge. I would submit that if they wish to secure the full benefits of public private partnerships, governments in this country must do the same.

Gary L. Sturges is Executive Director of The Serco Institute, London, UK. This is an edited version of a speech given at the Institute of Public Affairs in Melbourne on 10 July 2003.

IPA

Pre-empting Terror: Take a Networked Approach

JOHN ARQUILLA

IN WAR, the sometimes subtle interplay of attack and defence is best described by the concept of pre-emption—striking first so as to thwart or disrupt an impending blow. Pre-emption has long been used to offset numerical inferiority. This was the case when Sir Francis Drake raided Cadiz in 1587, wreaking enough havoc to delay the sailing of the Spanish Armada for one, fateful year. Closer to the present, in 1967, the Israelis struck at the far larger Arab armies that they thought were about to attack them, winning a remarkable, against-all-odds victory. In the current conflict, pre-emption has once again come to the fore, this time not to offset greater numbers, but rather to mitigate the problems posed by the porousness of open societies and their inherent vulnerability to terrorist attack.

It is hardly surprising, then, that both President Bush and Prime Minister Howard have articulated a shared vision about how to improve security by means of pre-emptive attacks. Theirs is clearly the most logical way to take the initiative in the terror war as, no matter how vigilantly defences are manned, there are simply too many places to protect and too many modes of attack to anticipate. Al-Qaeda and its allied terror networks are conducting a campaign designed to strike almost anywhere in the world, and they have shown aptitude at 'riding the rails' of our technology to strike at us. Clearly, a solution lies in pre-empting their plans, keeping them either running

or hiding as much of the time as possible.

Yet both the United States and Australia have encountered much reluctance to accept the pre-emptive doctrine they prefer, both in Europe and across a band of Muslim-populated countries running from Morocco to Malaysia. There are three main objections raised to pre-emption. First, some

The beauty of the concept is that, even as it makes us more efficient, it also helps to master the political, legal and social objections to taking the initiative against terror

see a slippery slope, where disrupting an impending attack can evolve into full-blown preventive wars against those who aren't planning an assault, but whose capability to do so is growing. This concern bedevilled the efforts to cobble together a 'coalition of the willing' against Iraq.

A second concern about pre-emption is that it erodes sovereignty, in that it seems inevitable

that the pre-emptor will have to strike against terrorists located on foreign soil. This makes it a bit more complicated to invoke Article 51 of the United Nations Charter—the self-defence clause. The third objection to pre-emption is less legalistic, being more a general concern that a doctrine of pre-emption fosters dangerous unilateralism, leading to actions that might undermine international amity. It also implies that many nations simply do not want to be led—they want more say in setting strategy for the terror war.

Given the obvious good sense of a pre-emption doctrine, policy-makers must now focus on thinking their way through these objections, the goal being to set a new strategy that takes the initiative militarily and yet still strengthens the global coalition of nations allied in the fight against terror networks. An important first step would be to recognize the difference between pre-empting an oncoming attack and engaging in a preventive war. If the policy clearly distinguishes between the two, and focuses simply on pre-emption, much opposition will melt away. Sovereignty issues can be easily dealt with by the simple expedient of being sure to obtain permission from the relevant government prior to launching any pre-emptive action—a point that Prime Minister Howard has made and that President Bush should echo.

As to the resistance seen in many nations, to their being 'led', this is a thornier problem, and it requires some truly new thinking.

REVIEW

A recommended solution is that, in this first great war between networks and nations, it behooves the latter to form their own networks—for it is growing ever clearer that it takes a network to fight a network. If the terrorists are operating in over 60 nations, then our own counter-terror network must span 60 nations—and more. ‘Networking’, in this instance, consists of the widespread sharing of information and co-operation in the field between intelligence, military, and law enforcement organizations in all countries involved. It means pre-emptive attacks will result from shared intelligence and will feature multinational assault forces. It means that nobody leads, but rather that all strive together toward a common goal.

In many respects, Australia and its neighbours are well poised to build a co-operative regional counter-terror network. There is ample precedent for regional networking in the experiences all have gained in fighting high-seas piracy over the past decade—a struggle in which the many successes have almost all been due to swift information-sharing and joint operations. Regional networking was also crucial in response to the crisis in East Timor. Most recently, the success in pre-empting a truck bombing campaign in Singapore—planned by an al-Qaeda affiliate—was another shining example of the power of sharing even very sensitive data about terrorists with each other.

If pre-emption is to prove an effective tool against terror in the months and years to come, it must be empowered by networking. And the beauty of the concept is that, even as it makes us more efficient, it also helps to master the political, legal and social objections to taking the initiative against terror.

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IPA

The Road to Serfdom

How Africa is Sliding Back to Servitude

JAMES S. SHIKWATI

DS AFRICA trudging the road back to serfdom? Friedrich A. Hayek, the 1974 Nobel Laureate in Economics, wrote in his book, *The Road to Serfdom*, that central planning systems are the surest way of enslaving people. Asked Hayek, ‘Is there a greater tragedy imaginable than that in our endeavour consciously to shape our future in accordance with high ideals we should in fact unwittingly produce the very opposite of what we have been striving for?’

With over 50 million Africans living on less than \$1 a day, African policymakers have focused on policies that encourage external donor funding to their governments. According to the World Bank, aid inflows to sub-Saharan Africa rose from 3.4 per cent of GNP in 1980 to 16.3 per cent in 1995. These official inflows typically funded basic government programmes, together with all or most of government development expenditures. Dependence on aid has led to African governments virtually ceding the shaping of their economic and social policies to external agencies. Wealthy nations and international institutions such as the World Bank and International Monetary Fund have become the central economic planners for Africa. The end result is sporadic project implementation, corruption, and poor economic performance attributable to inept policies, political tensions as each ethnic community jostles to partake of the ‘national cake’, and

disaster unpreparedness due to donor anaesthesia.

At independence, the African leadership was faced with the task of building nations and economic development. Given that the colonialists were mostly capitalists, the African elite sought to embrace socialistic strategies as a way of identifying with the masses. For the past 40 years, African countries have got stuck on the inherited economic systems that rely on production and export of primary resources. Sub-Saharan’s share of world trade has declined over this period from 3.1 per cent of world merchandise exports in 1955 to just 1.2 per cent in 1990. The entire continent of Africa accounted for a lesser share of the world’s exports than Belgium, 2.3 per cent against 3 per cent. Agricultural goods and raw extracted minerals form the bulk of the exports.

Most of the agricultural activities in Africa take place on patches of impoverished soil tilled by smallholder farmers. Seventy per cent of the African population is in the rural areas and depends mainly on agriculture. Sixty per cent of Africans are in absolute poverty, with 80 per cent of Africa’s expenditure going on food. Repeated attacks by pests and diseases, and expensive farm inputs coupled with natural disasters have put this industry in jeopardy. Food crises have exposed Africa to manipulation by wealthy nations that use food aid to further their agendas. Without analyzing the long-term impact of their decisions, African

policymakers have accepted food aid that further disorients their farming communities, making the continent even more vulnerable.

Extraction of mineral wealth, instead of making Africa wealthy, has turned into a curse. Gold, copper, uranium and oil wars in the Congo, oil and water wars in Sudan, diamond wars in Sierra Leone, clan land wars in Somalia, to mention but a few, have devastated a big section of the continent. It has also led to thousands of innocent people being displaced as refugees, family lives being disrupted and government systems destroyed. The conflict situation in Africa has made it difficult for strong institutions to be put in place that support predictable and enforceable laws. This has not only made it difficult for African entrepreneurs to prosper, but also for African countries to attract external investment.

Due to constant political instability and lack of security in office, African ruling elites tend to concentrate on looting, banking the proceeds outside of Africa. This breeds short-term policies meant to satisfy the regime in power without ever focusing on establishing conditions that will benefit future generations. Lack of proper institutional systems in Africa makes it difficult for individuals to explore new knowledge and utilize their potential to the full. Hayek observed, 'Only since industrial freedom opened the path to the free use of new knowledge, only since everything could be tried—if somebody could be found to back it at his own risk—has science made the greatest strides which in the last 150 years have changed the face of the world'. In Africa, entrepreneur-

ship is frowned upon by political elites who fear potential rivals. Many people are made to focus on salaried employment because commercial enterprise is viewed as immoral and exploitative. In Africa, anyone who employs a hundred people will be seen as an exploiter, but if he is put in command of the same number of people he will be viewed as a respectable member of society.

Unless Africa wakes up to the reality that international relations are driven mostly by commercial gains, it will be difficult for her to fit into the global economy. In market economies, the consumer is king; this was well illustrated when Kenya's tourism industry ended on its knees due to its inability to honour the demands of the consumer.

In essence, African governments respond to the wishes of the donor community rather than to the views of their own citizens. Rather than strengthen the productivity of the agricultural sector, they provide food aid to farmers. Rather than strengthen their economies to enable Africans to afford drugs, they ask for free medicines for the sick. Rather than focus on increasing the volume of trade with the developed world, they focus on asking for donor funding. Instead of allowing communities to manage and benefit from wildlife resources, they protect the wildlife according to western environmental practices. If Africans are not already enslaved, they are steadily and surely trudging the road back to serfdom.

James S. Shikwati is the Director of the Inter Regional Economic Network (IREN) based in Kenya.

I P A

Musing...

Burning Issues

by Mike Nahan

There is no doubt that democracy works in Australia. Take the recent forest fires that burnt 1.5 million hectares in the Eastern States last summer.

Governments have for decades responded to the demands of 'deep' Greens and tried to protect an increasing proportion of state forests from the impact of Man and fire. Of course, the real political pressure came not directly from the deep Greens but rather from the millions of urbanites duped by the Greens' apparently simple and costless message.

Well, the fires have brought home to the urbanites the stupidity of the deep Green mantra. A parade of experts before various investigations into the fires has made it clear that the Greens' policy of reducing controlled burning was a major factor in the severity of the fires.

While officially in denial, the NSW National Park Department currently has 32 separate controlled burns under way and has advertised these heavily in the media. The Victorian and ACT Governments have been more forthright and admitted that the previous policy was a bad mistake and promised to reverse it.

Mind you, democracy is not the only motivating factor, as there are numerous groups of aggrieved landholders pursuing legal action against governments.

The real question is: will support for the Greens wane as people realise the stupidity of their ways? I doubt it.

Independence in the Pacific Should be a Positive Process

ANDREW McINTYRE

EARLY in June, New Caledonia's President, Pierre Frogier, who is also a Member of the French Lower House in Paris, told fellow MPs that 'Pacific island states were falling into anarchy'. Frogier was speaking during debates in the French National Assembly in Paris, where he stressed that New Caledonia was 'lucky to have major natural resources such as nickel, a third of the world's reserves'. He could have well added, New Caledonia was lucky to still have France.

Australia has just sent troops to the Solomons as a last desperate move to prevent a slow and irreversible decline into anarchy. Our English-speaking Pacific neighbours are suffering catastrophic social, economic, infrastructure, educational and governance collapse.

Little talked about, and standing in stark contrast, is the fact that New Caledonia, along with Tahiti, have a first-world standard of living and infrastructure to go with it. The per capita GNP for New Caledonia (\$US 15,000) and French Polynesia (\$US17,000) are in the top 20 in the world; both are higher than New Zealand. Life expectancy in New Caledonia and Tahiti are 73 and 72 years respectively, compared with 54 for New Guinea, 66 for Vanuatu and 65 for the Solomons. Literacy rates are at 91 per cent. And to top it off, all have the same basic rights as French nationals.

Whatever one thinks of this French presence, one thing is certain. Notwithstanding the recent

small Kanak protest against President Chirac on his three-day visit in late July, a very large majority of ethnic Kanaks don't want to end up like their Pacific neighbours.

It is true that in the 1980s New Caledonia was marked by political instability and civil unrest, but all of that has radically changed. In 1988, the Matignon Accords were established between the French Government and the two major political groups, the FLNKS, a coalition of pro-independence Kanak parties, and the 'loyalist' RPCR—made up largely of white Caldoche settlers, metropolitan whites, some Kanaks and minority immigrant groups. A decision on independence was postponed for 10 years.

This led to the framework of the Noumea Accord, signed on 5 May 1998, with a further vote on independence in 2014. Although the balance between separatists and loyalists has always been weighted towards staying with France—only 43 per cent of the population are Kanak—any move towards independence will always involve winning the confidence of the white 'caldoche' settlers and ensuring economic viability.

Nevertheless, the present French policy has specifically enshrined a process that is moving towards independence. There is a deliberate policy of openness towards its neighbours, support for the local Melanesian culture with the building of the huge, multi-million dollar Kanak Cultural Centre—an important focus for cultural exchanges with other Pacific Island countries—and govern-

ment-to-government exchange programmes for training Kanaks, not to speak of huge infrastructure and training budgets.

The Accords also contain an agreement for a process of inclusion of Kanaks in political power-sharing and a redirection of economic resources to Kanak provinces.

Skeptics will doubt French motives. France, unlike Britain, has had a long tradition of holding on to its former colonies. Martinique, Guadeloupe and Reunion are now integral parts of the French Republic, as much as, say, Calvados, or Savoie. But it would be hard to argue that it is for reasons of economic self-interest. All of these overseas departments [DOM], and the overseas Pacific Territories [TOM] represent a net drain on the national purse of around \$A2 billion annually. The fundamental principle on which France's policy rests is that of the will of the local population.

For New Caledonia, however, senior French diplomats see independence as inevitable and desirable. Nobody I have spoken to thinks otherwise. But when one considers the enormous amount of work still to be done by France in New Caledonia, there are important lessons to be learned about the disastrous results of hasty decolonization seen elsewhere.

The strong European presence—37 per cent of the total population—ensures a careful and long-term devolution towards independence, but at a pace that guarantees stability, adequate infrastructure and good

governance. This is precisely why New Caledonia has a distinct advantage over its neighbouring anglophone countries and it underlines just what are the obstacles to successful decolonization.

The Kanak population is very young, with 40 per cent under the age of 20 and a large majority of them dispersed in the bush. It is this group, naturally, that is struggling to improve its educational levels. Nearly a quarter of the European stock has a university education, whereas only 1.6 per cent of the indigenous Melanesians does. As with other Pacific Island peoples, the lack of motivation and opportunity, social and cultural difficulties due to the physical isolation of tribal villages, go a long way to explaining this situation.

Access to education is being addressed through a massive building programme and the establishment of live-in boarding schools. And all this comes with a sophisticated education system and a large number of highly trained metropolitan teachers.

There is also a comprehensive and successful '400 Managers' programme to address the specific deficit of managerial expertise in the indigenous population. The arrival of water, electricity and telephones has improved things enormously in the bush, but this infrastructure also requires skilled technicians to maintain it. Only a fifth of plumbers, electricians and builders are Melanesian, and of the 8,675 construction companies, nearly 80 per cent are in the southern province in and around Noumea, with only 4.9 per cent in the offshore islands.

A little admitted fact is that neither tribal life nor traditional practices are compatible with the economic development activities that sustain independence. To bridge this gap, for instance, each region has a programme that goes out to the villages to provide technical and administrative training

and support for small business. The Chamber of Commerce has developed a similar programme. In all, there are 80 training organizations in the territory, of which 60 are private. The state budget for this work has more than tripled since 1988. In 2002, over \$200 million was set aside. Already, by 1998, 2,365 people had been on courses, including apprenticeships and training in mining, tourism and agriculture.

The problem of transforming a traditional, tribal society to a modern one is difficult and will take much time and effort even within this efficient and functioning

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wealthy state. Special effort has had to be expended to create work where it would otherwise be easy to become discouraged due to lack of experience.

The repeated demands of political separatist groups such as PALIKA and other anti-colonial separatist groups, such as the Pacific Islands Association of Non-Government Organizations (PIANGO) which continue to affirm 'the indigenous Kanak people's right to self-determination and political independence from France', look very pie-in-the-sky, particularly in the context of the social, cultural, economic and political catastrophes surrounding them.

The truth is that, as Roger Sandall observes in his book, *Culture Cult*, [2001] 'the best chance for a good life for indigenes is the same as for you and me: full fluency and literacy in [a world language], as much maths as we can handle, and a job'. This of course is exactly what France's presence is attempting to establish for the Kanaks in New Caledonia. Through its infrastructure and long-term presence, France provides those things necessary for success.

At some stage we might just be honest enough to admit that hasty independence often does not work. The point of comparing the French experience with neighbouring states is that this process is not easy. Even in a society such as New Caledonia, where a large number of the people are European, with good infrastructure and an efficient, first-world democratic governance, it requires a sustained and long-term effort. As Sandall emphasizes, 'Studies show that the contrast between the wealth-producing cultures of Western Europe and the poverty-producing traditional cultures, goes back for centuries.' Critically, he observes, 'the break with communal arrangements was the essential first step forward'. Clearly this is a long and painful process.

The strident rhetoric of separatism and imported images of Bob Marley and black revolutionary heroes used in the eighties have difficulty today convincing anyone that a solution lies down that road.

We should thank France for its sanguine and steady purpose in paving the way for a truly independent, sovereign and successful neighbour.

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I P A

REVIEW

Coercing Virtue

ROBERT H. BORK

Because the Left is unable to win the culture war in a democratic forum, it has turned to the courts. Taking up the Left's banner, the courts have engaged in judicial imperialism, which threatens the most important elements of democracy.

THE nations of the West have long been afraid of catching the 'American disease'—the seizure by judges of authority properly belonging to the people and their elected representatives. Those nations are learning, perhaps too late, that this imperialism is not an American disease; it is a judicial disease, one that knows no boundaries. The malady appears wherever judges have been given, or have been able to appropriate, the power to override decisions of other branches of government—the power of judicial review.

Oddly enough, the role of courts in displacing self-government and forcing new moralities has not triggered a popular backlash. Courts have been and remain far more esteemed than the democratic institutions of government, even though the courts systematically frustrate the popular will as expressed in laws made by elected representatives.

Judicial activism results from the enlistment of judges on one side of the culture war in every Western nation. Despite denials by some that any such conflict exists, the culture war is an obtrusive fact. It is a struggle between the cultural or liberal Left and the great mass of citizens who, left to their own devices, tend to be traditionalists. The courts are enacting the agenda of the cultural Left.

I sometimes refer to the faux intellectuals of the Left as the 'New Class,' a term that suggests a common class outlook and indicates

the group's relatively recent rise to power and influence. The New Class consists of print and electronic journalists; academics at all levels; denizens of Hollywood; mainline clergy and church bureaucracies; personnel of museums, galleries, and philanthropic foundations; radical environmentalists; and activist groups for a multiplicity of single causes.

The New Class's problem in most nations is that its attitudes command only a political minority. It is able to exercise influence in many ways, but when cultural and social issues become sufficiently clear, the intellectual class loses elections. It is, therefore, essential that the cultural Left find a way to avoid the verdict of the ballot box. Constitutional courts provide the necessary means to outflank majorities and nullify their votes. The judiciary is the liberals' weapon of choice. Democracy and the rule of law are undermined while the culture is altered in ways the electorate would never choose.

The socialist impulse remains the ruling passion of the New Class. What are the characteristics of an impulse toward socialism that manifest themselves in both the economic and the cultural aspects of life? A partial list would include a passion for a greater, though unspecified, degree of equality; a search for universal principles; radical autonomy for the individual (but only in a hierarchical and bourgeois culture—when that is replaced, there will be little tolerance

for individualism); radical feminism; and a rationalism that despises tradition and religion and supposes that man and society can be made anew by rational reflection.

LAW'S IMPORTANCE

In discussions of cultural warfare, law is usually overlooked. Yet law is a key element of every Western nation's culture, particularly as we turn more to litigation than to moral consensus as the means of determining social control. Law is also more crucial today because courts have become more overtly cultural and political. Courts have played major roles in many pathologies, both by breaking down the traditional legal barriers societies have erected against degeneracy and by offering moral lessons based on the emancipatory spirit. In a word, courts in general have enlisted on the liberal side of the culture war.

What does it mean to call a judge 'activist' and 'imperialistic'? The terms are bandied about freely by politicians and members of the media in an unedifying crossfire of slogans that passes for public debate, so it will be useful to give those terms more stable meanings. Activist judges are those who decide cases in ways that have no plausible connection to the law they purport to be applying, or who stretch or even contradict the meaning of that law. They arrive at results by announcing principles that were never contemplated by those who wrote and voted for the law. ▶

Though judges rule in the name of a constitution and their authority is accepted as legitimate only because they are regarded as the keepers of a sacred text in a civic religion, there is no guarantee that the results actually come from that constitution. It is often easier to predict the outcome of a case by knowing the names of the judges than by knowing the applicable legal doctrine. The nations of the West are increasingly governed not by law or elected representatives, but by unelected, unrepresentative, unaccountable committees of lawyers applying no law other than their own will.

The question of why most judges impose New Class attitudes is simply answered. Those attitudes are congenial to them, and the adoption of such attitudes is important to their reputations. Judges, having passed through colleges and law schools, are themselves certified members of the intelligentsia. The ideas and values of the New Class are part of the furniture of most judges' minds and seem self-evident. Beyond that, the prestige of a judge depends on being thought well of in universities, law schools, and the media, all bastions of the New Class. Very liberal judges are routinely labelled 'moderates,' while judges who attempt to apply a law as it was originally understood are equally routinely called 'conservative' or 'right wing.' Whether a judge deliberately caters to these organs of the New Class or is unconsciously conditioned by praise and criticism to behave in accordance with the class's tenets, the effect is to move him to the cultural Left. A by-product of this shift is a decline in the quality of judicial opinions, a decline that occasionally results in incoherence. Judicial systems were typically not designed for cultural and political roles. In adopting them, judges not only exceed their authority but perform poorly, often simplistically. Their training lies

in such mundane but essential skills as reading perceptively, thinking logically, and writing clearly about precedents, statutes, and constitutions, not in pondering philosophy and social justice. However inadequate the moral philosophizing of judges may be, in this new role courts still speak self-confidently and with ultimate authority.

As the culture war has become global, so has judicial activism. Judges of international courts are continuing to undermine democratic institutions and to enact the agenda of the liberal Left or New

The nations of the West are increasingly governed not by law or elected representatives, but by unelected, unrepresentative, unaccountable committees of lawyers applying no law other than their own will

Class. As the battle crosses national boundaries, moreover, it becomes less a series of separate or even merely parallel wars and, at the level of legal intellectuals, is increasingly a single struggle. This shift is occurring not only because of the creation of supranational courts, but also because judges on national courts have begun to confer with their foreign counterparts and to cite foreign constitutional decisions as guides to the interpretation of their own constitutions. Judicial imperialism is manifest everywhere, from the United States to Germany to Israel, from Scan-

dinavia to Canada to Australia, and it is now the practice of international tribunals.

MUCH AT STAKE

It is a dismal reflection on our times that few people other than activist groups and cultural elites, who want more of the same, seem to be concerned about the gradual replacement of democracy by judicial rule. This takeover is not a minor matter of judicial philosophy, of interest only to the theoretically inclined. At stake are personal freedoms. The fundamental freedom recognized in democracies is the right of the people to govern themselves. Specified constitutional rights are meant to be exceptions, not the rule. When, in the name of a 'right,' a court strikes down the desire of the majority, expressed through laws, freedom is transferred from a larger to a smaller group, from a majority to a minority.

Activist courts accomplish their ends by a combination of coercion and moral persuasion. Normative values pronounced, even falsely, in the name of a constitution often come to be accepted by the public and are then reflected and intensified in legislatures, schools, and other institutions. Given conflicting outcomes on particular issues, however, the courts of different nations display a tendency that is the same everywhere: the continuing usurpation of the authority lodged in democratic government, along with the movement of societies to the cultural Left. These trends may in time be halted, but at present there is little evidence of any reversal.

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I P A

REVIEW

The 'R' Files

ALAN MORAN

Irrigation Water: Sound Policy Trumps Bad Science and False Prophecies

Policy brinkmanship characterized last month's CoAG meeting of State and Commonwealth Ministers. Out of its ashes one bright spot was the agreement reached on water policy for the Murray–Darling system. The agreement on water prevented the serious damage to the economy that was pregnant in the prescriptions put forward by the Wentworth Group. This band of mainly WWF and CSIRO activists was named after the swanky Sydney restaurant where they were feasted by a well-healed environmental zealot.

WWF-financed, and sanctified by the CSIRO brand name, the Wentworth Group had set the national agenda in land and water environmental matters. Their publications and media appearances waxed lyrical about impending disasters.

By unashamed exaggeration and a pinch of pseudo-science, the Wentworth Group has catapulted the Murray–Darling river system into the forefront of the environmental policy arena. The Group and its allies had proclaimed human activities were bringing an engulfing salinity crisis, a Murray choked with blue-green algae and mass extinctions. These developments were allegedly threatening the Murray–Darling Basin's agricultural productivity—the pillar on which its economy rests. Resolving the problems they had conjured up just might be possible, according to them, by taking a minimum of 20 per cent of farmers' irrigation water.

Whilst for WWF the issue fed the Green movement's loathing of modern agriculture, for CSIRO it offered



the prospect of whipping up a storm that would justify government bounties in research grants.

For its part, the Murray Darling Basin Commission (MDBC), the agency tasked by the government to study, document and advise on the management of the waters, was a willing conscript in the public's deception. Its spokesmen stumped the country with the script of doom and its publications announced the impending upsurge of the salinity that would contaminate the river's life-giving irrigation water and poison Adelaide's drinking water.

The activists' solutions involved taking back water from farmers.

Many offered sugar-coating to this pill by suggesting that farmers' water rights were not really property rights. Failing to comprehend how property rights are formed, they referred to the rights as 'entitlements' that carried reduced certainty and in many cases were illegitimately granted.

Others argued that with careful planning and guidance by the activists, the farm sector would be actually better off since they would be required to adopt an efficiency-enhancing shift to crops with a higher output per unit of water used. This prescription, strongly supported by the Wentworth

Group, would abandon individual landowners' decisions on what to grow. It would replace the farmers' own choices with some centralized system where production decisions are based on comparative water efficiencies per unit of output. Those promoting the idea demonstrate a total ignorance of the outcomes of socialist planning in agriculture. Important in the activists' flawed economic prescriptions is a failure to recognize that while water is important, it is not the only input into agricultural production. Farmers, rather than activist-appointed planners, are best placed to do the maths for different inputs, outputs and land qualities and deciding which crops offer the best value.

The federal ALP fell for the Green spin and Simon Crean announced he would take 1,500 megalitres of water, about 20 per cent of irrigators' allocations. The NSW Government also wavered and announced plans to confirm existing rights for only ten years. Even the Liberals appeared shaky on the issue, with several Ministers making ambiguous statements about the need for increased environmental flows.

The IPA expressed considerable concern at the unfolding events. Our own analysis initially focused on the implications of the attack on water rights for national agriculture and for property in general. Irrigated agriculture is responsible for almost 30 per cent of farm output, half of which comes from the Murray–Darling Basin. If environmentalists pressured politicians to divert productive water in the Basin to environmental flows, then, aside from the harm to individual farmers, it would have deleterious effects on farm output in a region with considerable productivity potential. ▶

Moreover, in line with our fundamental approach to government and individual rights, we were highly concerned about measures which undermine property rights. Secure property rights are essential to economic prosperity. Where rights are vulnerable to expropriation or otherwise reduced in value by government actions, the resultant uncertainty means that property owners adopt short-term and risk-averse policies that make poor use of the assets.

From the outset we also expressed concerns about the quality of the data on which the calls for reduced allocations were being made. It was, however, left to Dr Jennifer Marohasy to develop this theme and puncture the claims made by the environmental zealots.

Drawing on records concealed within the MDBC's own database, Dr Marohasy showed that salinity is at pre-World War II levels, turbidity is where it was 20 years ago, the river is not carrying more phosphorus causing blue-green algae. The phosphorus it is carrying is now recognized as being principally caused by naturally occurring basalt.

Some of their key claims deflated, the doomsayers elevated what had previously been lower level claims to increased prominence. These included:

- dying red gums (said to be 300,000 in number—but left unsaid is that these are in a population of 30 million);
- a dearth of Murray Cod and a plague of European Carp; and
- closure of the Murray mouth.

These 'second order' claims are yet to be addressed in the same way as the deeper assertions that set the original ball rolling. What is clear, however, is the determination of those seeking to exploit the general groundswell in favour of action to punish the productive sector.

At the CoAG meeting on 29 August, the evidence that the IPA had assembled and the media coverage it had attracted offered support to the saner voices within the political and

public sector circles. Far from signalling the rollback of Australian agriculture, the CoAG meeting brought water rights under powerful Constitutional protection (requiring any acquisitions be on 'just terms'). CoAG Ministers avoided potentially costly regulatory measures and instead established a \$500 million budget over a five-year period and set up committees to address water over-allocation. This set of activities will include measures to address:

- better trading opportunities across the Murray–Darling Basin, including through improved measuring and monitoring of entitlements and use;
- means of ensuring water prices are fully cost reflective;
- an integrated response to the need for, and means of addressing, environmental flows.

The meeting made it clear that sound science will underpin any decision made on the use of the system. Not only did the outcome owe much to Commonwealth Ministers, with John Anderson at the head, but it also demonstrated a considerable capacity for leadership by the NSW Minister, Craig Knowles.

While the Wentworth Group felt obliged to offer support to the general thrust of the government decisions, it maintained its obdurate approach to the scientific factoids it had drawn upon. Its leading member, former 'Environmentalist of the Year', Peter Cullen said, 'The science is clear—the river is in serious trouble'. As usual, without drawing on any evidence and refusing to address the impressive material that Dr Marohasy has assembled, he maintained that the evidence required environmental flows of at least 100 megalitres per year. (Left unsaid was that the 100 megalitres plan was for a cumulative addition required for 'as long as it takes'—after 30 years it would be 3,000 megalitres!)

The entire experience illustrates the deep susceptibility of the political psyche to environmental scare tactics. But because genuine environ-

mental issues rarely arise suddenly governments can carefully assess them and forge well-thought-through options rather than reacting with knee-jerk responses.

Decisions will eventually follow about whether water acquisitions should be made. If, based on careful analysis, it is determined that no draconian action is required, this will mean that the security of water rights of thousands of farmers has been needlessly threatened, with direct cost implications and indirect costs of uncertainty to those farmers.

While the WWF and other environmental organizations have long demonstrated a disdain for accountability or for honesty, the government agencies that have aided and abetted their claims have a duty to act with integrity. This highlights a fundamental institutional failure. Not only were the undisciplined nostrums of the Wentworth Group uncritically lapped up by a sensation seeking urban-oriented media, they owed much of their credibility to the imprimatur lent by CSIRO. The CSIRO, as a taxpayer-funded group of scientists, has no remit to enter political frays to drum up business for itself. Yet on this occasion, it did so without drawing upon scientific evidence on which its authority rests.

Government-financed organizations that are casual with the truth, as CSIRO has been, impose a double set of costs. Not only does the community incur expenses to combat the effects of the misrepresentation but it has also financed the original study. For this reason, CSIRO, as Australia's premier taxpayer-financed research body, must be called to account. It is one thing to have taxpayers' funds targeted at genuine scientific problems, it is quite another to have such funds directed at concocting such problems as a means to leverage additional funding.

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

IPA

REVIEW

How to Centrally Plan the Environment

JIM HOGGETT

AUSTRALIA lost three million hectares of native vegetation last bushfire season. All of this would fall within the current statutory definition of 'clearing'. In other words, we just 'cleared' 40 per cent of Victorian forests, 60 per cent of ACT forests and 20 per cent of NSW forests.

At the same time, the Productivity Commission has been charged with an inquiry into the Native Vegetation and Biodiversity regulations (NVBs); regulations aimed at preserving our environment. Truth is, they are a shambles.

Governments fiddle while the forests burn.

THE PROBLEMS

The problem is that the NVBs fall mainly on private landholders who manage most of the Australian environment—both natural and transformed—and that government has contrived to make compliance impossible.

First, the regulations are overwhelming. In NSW alone, they amount to at least 17 Acts of Parliament, numerous regulations and guidelines, multifarious regional, catchment and property plans, biological diversity strategies, species recovery plans, conservation agreements, threat abatement plans, local planning rules and much more. They specify endangered plants, animals, populations, and ecological communities, species presumed extinct, vulnerable animals and plants, key threatening processes and critical habitat—852 separate items.

In addition, the regulations are absurdly restrictive. The NSW *Native*

Vegetation Conservation Act defines clearing as 'any cutting, destroying, lopping, damaging' of native vegetation. It could include the cutting (or grazing) of a single blade of native grass. In truth, a farmer needs a team of lawyers, biologists and botanists following every movement of humans, animals and machinery on his property to be sure that he is not damaging individual plants or animals of some listed species.

Inevitably, consent procedures are time-consuming and expensive and therefore unavailable to any but a very small, wealthy minority. In NSW, the clearing application process involves 30 or more steps (for example, to lop a tree). Governments cannot manage or even comprehend the complexity they have themselves created, even with the assistance of the farcically numerous and chronically conflicting committees established by law to deal with NVBs.

Bad law means weak enforcement. There were 800 alleged breaches of the NSW State Environment Plan 46, but only 3 successful prosecutions. A nasty side-effect of the laws is that it encourages doblers and litigation.

Second, the NVBs are heavily duplicative. The *Native Vegetation Conservation Act*, the *Threatened Species Conservation Act* and the *Water Management Act* all contain NVB provisions, which are echoed in the *Protection of the Environment Operations Act* and the *Plantations and Reforestation Act*.

Third, the NVBs are extremely unstable. Government repeatedly changes the rules. This is not just the continual declaration of national

parks at the expense of the hapless forest industry. It involves continuous new restrictions on private land.

UNFAIR COSTS

Whatever regulations are imposed, privately-held land must still be managed and the NVBs impose a heavy cost. The landowner must learn the multifarious rules and participate in the process or suffer the consequences. He is effectively banned from private native forestry and new native plantations risk effective expropriation. He must identify listed species and protect them and their habitat. He must spend time with inspectors, objectors, informers and other third parties given rights over him.

Generally speaking, those that have maintained extensive areas of native vegetation will now be penalized for it. So, the NVBs cause loss of current and future income. The loss of expected income feeds into the potential sale price of the property and hence has an impact on the wealth of the landowner.

For the NVBs to have any real justification, they must presuppose the creation and transfer of well-being to the community at large. But how do you measure that? Given the existence of very extensive national park and State forest areas in Australia, the accession of vast new private forest areas is not likely to add much to recreational opportunities. There is a very substantial dilution effect and private forest is generally much harder to access.

There may be psychic income for the community from the quarantining of native vegetation areas on pri- ▶

vate land, but this is hard to measure and likely to decline quickly over time. This is confirmed by observation. The level of satisfaction among environmental activist groups does not appear to register any permanent increase with the gains made.

PERVERSE OUTCOMES

Simple preservation or quarantining of areas of land does not ensure predictable or good conservation outcomes. Land that is left unmanaged or poorly managed will not remain in its pre-existing condition nor revert to some stable, ideal environmental state.

Vague general principles, such as preservation of biodiversity, the precautionary principle and the concepts of ecological sustainability and intergenerational equity, are meaningless at the individual property level. Nor do the general principles incorporate the notions of sustainability of human communities. Nevertheless, the landowner must be the agent of the community for almost all the compliance with the NVBs (as well as make a living). His attitude is vital. And yet environmental regulation offers him almost no incentive to comply.

The landowner will minimize the time and expense devoted to the very parts of his property rated as high environmental value. Why bother with noxious weeds and feral animals in an area that the government has effectively expropriated? Why maintain access for hazard reduction or scientific assessment or the general public? Why identify rare species just to generate further interference? Why volunteer to fight fires created by government enforced neglect?

At present, there is virtually a complete disjunction between the day-to-day managers of the land and those who are attempting to micro-manage it from afar. Governments will not take up the task thus neglected. They will not have the resources to do more than conduct guerrilla inspections guided by local informers. In short, it will be the re-

verse of the outcome for which the policy was put in place.

CENTRALLY PLANNED ECOLOGY

The environment is subject to continuous slow change. There are medium and long-term climatic shifts, which alter the ecology profoundly. The cycles of fire can have long-term effects. It will take many decades to recover the billions of plants and animals destroyed in the last bushfire season and the ensuing pattern will be very different from that which preceded it.

Most of the longer-term changes are unpredictable and hence unknowable. But much of the regulation assumes an attainable, stable state, optimum environment.

The award for the most fatuous legislative provision must go to s140 of the NSW *Threatened Species Conservation Act*. This requires that the Biological Diversity Strategy is to contain proposals for 'ensuring the survival and evolutionary development in nature of all species, populations and communities'.

This patent nonsense implies a degree of knowledge about the environment and its future evolution that is quite breathtakingly arrogant and a degree of totalitarian surveillance and control that would be unacceptable if applied to human communities. After the spectacular failure of the centrally planned economy, we are to have the centrally planned ecology. We are engaged in a foolish and doomed attempt to preserve everything.

WHAT TO DO?

There is a case for the government to sort out priorities and express them much more succinctly in legislation. They created the mess and should now clean it up. At the same time, they could dramatically slim down and localise the administrative processes.

Government should cease trying to apply national parks standards to private land. The NVBs can be char-

acterized as a means of getting more national park on the cheap. In any case, parks often provide poor examples of conservation: consider the regular Royal National 'bonfire' and the utter desolation of the Brindabellas.

We also need to abandon the notion that anyone—park manager, farmer, forester—can micro-manage the environment to the degree envisaged by some scientists and much of the environmental movement. There needs to be flexibility in the regulations so that they tackle the more serious environmental problems and protect the significant areas of value.

Solutions could also include voluntary conservation agreements, which would be like a lighter handed version of the existing native vegetation Property Agreements. It is important that they embody financial incentives for the outcomes desired by the community. This could be accompanied by the further development of markets in environmental goods. We already have a market operating for greenhouse credits and the market in water rights is expanding. Green NGOs could then put their money where their mouth is and buy the outcomes they demand rather than forcing private landowners to pay for them through confiscatory legislation.

Given the pervasive presence and continuing impact of human populations, we should consider careful use of the environment rather than an ever-expanding list of prohibitions. Encouraging positive behaviour is a better solution in our society than savage punishment for perceived and often-trivial misbehaviour.

Finally, we should resist the expropriation of property rights that underpin our society. Where one section of our society is required to surrender valuable rights to please another, then the cost of this should be borne by the community as a whole.

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IPA

NGOs: Chasing the Corporate Dollar

DON D'CRUZ

THE media have long been concerned about corporate funding of conservative think-tanks. Indeed, over the last month, the *Sydney Morning Herald* has run at least three articles on the issue—all concluding that funding had led to us becoming 'guns for hire'.

The media overlooked the fact that many of our opponents in the non-government organization sector (NGOs) are either receiving significant corporate funding or are making plans to pursue corporate funding.

But no sector better exemplifies this burgeoning interest in corporate cash than environmental NGOs. Corporate coffers are the newly-found treasure for the global Greens.

Though Green groups constantly invoke anti-corporate rhetoric to endear them to their radical base and some sections of the media, their anti-corporate rhetoric often melts away when it comes to receiving money from business.

The Greens' quest for corporate cash has been driven by a number of factors. First and foremost is the fact that traditional Green scaremongering is failing to reap dividends among individual donors. Most Green groups have a business model built on fear of global environmental cataclysm. The sector has pursued one scare story after another in order to activate their donor base. The problem is that the public is starting to get wise, or immune, to this tactic. As a result, raising funds from individuals is getting harder. Moreover, in an age of terrorism, environmental horror scenarios are sounding a touch trite.

Greenpeace Australia Pacific is a good example. Last year, Greenpeace Australia Pacific raised \$1,888,000 from new supporters. The problem is that it cost \$3,287,000 to raise these funds—yielding a loss of 42 per cent for each dollar invested. Clearly, things are getting harder.

This is not simply confined to Australia. A few years ago, Greenpeace USA collapsed financially, requiring it to engage in some significant corporate downsizing of its own and a bailout by Greenpeace International.

Greenpeace's market research among its key 25–35 year old target audience is also telling them that the old tactics of confrontation and negativity are not popular, with a more positive, solutions-orientated approach being preferred.

The environmentally-friendly messages and activities of businesses and governments have also taken the urgency and sting out of the doomsday scenarios of environmentalists. Not to mention the fact that the environment is actually improving in developed countries—a fact that is readily obvious to many potential donors.

Data compiled by Capital Research Center in Washington DC show that membership among Green groups in the United States has been relatively static for almost two decades. Despite this, the American environmental movement has witnessed a dramatic increase both in the number of NGOs and in total funding. This growth has not been grassroots-driven, but driven by the largesse of US philanthropic, corporate and government interests.

In Australia, membership of environmental NGOs has also been relatively static. So much so that, in a recent *Sydney Morning Herald* article, environmentalists lamented the lack of a major crisis to galvanize support. This is indeed an odd thing for supposedly committed environmentalists to wish for, and further buttresses the claim that the interests of the environment and environmental NGOs are not necessarily the same.

Another factor in the drive for corporate cash is that after the best part of a decade attacking corporations, these same corporations are ready to pay environmentalists either to go away or, at least, hold their tongues. Some businesses have already moved to 'monitize' (a term used in Enron memos to describe funding of Green NGOs) their relationships with activists and many NGOs are happy to take the money.

The media has been slow to look at the corporate–NGO funding nexus—primarily, I suspect, because environmentalists have emphasized the 'business is taking notice of us' aspect of the relationship, rather than the donations of money.

Some groups, it must be said, are fairly up-front about their growing corporate funding base. The Australian Conservation Foundation (ACF) is reasonably open about the names of the businesses funding it. It has received funding from companies such as Berri, Coles, Kyocera, Microsoft, National Australia Bank, Pacific Hydro, BHP-Billiton and Southcorp.

Sometimes, however, the exact terms of these financial relationships aren't clearly explained. For example, ACF's relationship with Southcorp ►

(for which it received \$250,000) was portrayed on the ACF's Website as 'an alliance to raise awareness and develop strategies to combat salinity'. Southcorp, on the other hand, viewed it somewhat differently. It declared that its donation was intended 'to get a good PR profile'.

In *The Age/Sydney Morning Herald* 'Good Reputation Index 2002', this appeared to pay off. ACF ranked Southcorp as the fourth best corporate performer on the environment, while the EPA of Victoria ranked it 82nd.

No environmental NGO is as comfortable with corporate money as World Wildlife Fund (WWF). WWF isn't fussy—it takes money from any business willing to offer it. WWF shares none of the inhibitions displayed by other environmental NGOs about corporate money and has devised a slew of innovative ideas to relieve corporations of their shareholders' money, ranging from donations and licensing agreements to merchandizing and partnerships.

WWF's corporate funders include Alcoa, Johnson & Johnson, Eastman Kodak Company, Kubota, SE Gobe Unit, BHP-Billiton, Rio Tinto, Chevron, Japan PNG Petroleum, Mobil, Oil Search, Orogen Minerals, Petroleum Resources, Santos, Cue, Mountains West, Motorola, Philip Morris, Bank of America, Citigroup, Du Pont, Gap, The Home Depot, IBM, J.P. Morgan, Morgan Stanley Dean Witter, Oracle, Procter and Gamble and The Walt Disney Company. The reality is that just about every major corporation in the world is giving money to WWF.

Last year, WWF and two other environmental NGOs signed a five-year US\$50 million partnership deal with HSBC. To put this into perspective, the annual budget of a conservative think-tank in Australia is about \$1 million to \$1.5 million.

Why would HSBC give WWF and the other NGOs US\$50 million to undertake work on water in China and elsewhere? The official reason, as stated by HSBC Chairman Sir

John Bond, is that 'Companies as well as individuals have a responsibility for the stewardship of this planet, which we hold in trust for the future'. The fact that HSBC is also one of the leading financiers of the Three Gorges Dam in China, and therefore a target of many NGOs, may also have a bearing on the issue.

WWF has enjoyed even greater success in convincing the World Bank to give it money. As of 1998,

The Greens' quest for corporate cash has been driven by a number of factors. First and foremost is the fact that traditional Green scaremongering is failing to reap dividends among individual donors

WWF had received (often in conjunction with other NGOs) a staggering US\$199 million from the World Bank's Global Environment Facility.

The question is: why do corporations (and the World Bank for that matter) hand over such large sums of money to WWF? In a word, 'protection'. Corporations have increasingly sought to protect their reputations from attack by the likes of Friends of the Earth and Greenpeace by getting an environmental NGO 'on board' to sign off on its projects and defend them in public debate. Businesses believe that having the 'seal of approval' of a major Green group reduces the risk to its reputation.

Thus, environmental groups operate largely in a 'good cop, bad cop' mode—although within the environmental movement, some prefer to think of this as 'insiders' and 'outsiders'.

One environmental NGO which has traditionally been prepared to be the 'bad cop' and which has staked its reputation on not receiving corporate money is Greenpeace. It has stated quite clearly that it does not accept money from business—although there have been signs that this may be about to change.

A few years ago, Greenpeace International called in consultants to conduct a brand valuation exercise. According to the former head of international fundraising marketing for Greenpeace International, Daryl Upsall, this was done with a view to licensing agreements for the use of Greenpeace's brand. These plans were reportedly shelved, although franchises such as Greenpeace Brazil have already engaged in the licensing of some 500 products with the Greenpeace brand name.

Although Greenpeace will strongly deny any suggestion of change, the days of Greenpeace's refusal to take corporate money are probably coming to an end.

Amnesty International is another NGO which has previously made a policy of not accepting corporate money. This has now changed—Amnesty's Annual Report lists a large number of corporations providing 'Pro bono and financial support'.

Conservative think-tanks such as the Institute of Public Affairs have become accustomed to having the credibility of their arguments questioned purely on the basis of their corporate funding. The broader trends of corporate funding within the NGO sector mean that this line of attack now raises more questions about the IPA's opponents than about the IPA.

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I P A

REVIEW

Conspiracies and NGOs

GARY JOHNS

AS YOU and I slumbered, it appeared that the dear old Melbourne *Sunday Age* and the *Sydney Morning Herald* had been keeping the world safe for democracy. Unaware that a world-wide conspiracy was abroad to silence NGO activists, we simply missed it, until some brave journalists received a leak, deep from within the bowels of government, that a 'right-wing' think-tank, in league with the Howard Government, had hatched a 'covert project' to 'silence' the non-government sector.

Apparently 'bitter' from the loss of his position as Special Minister of State with the fall of the Keating Government at the hands of 'minorities', the former minister has devoted his every waking hour to avenge his loss, travelling the world to gather co-conspirators, indeed to build a coalition against the non-government sector.

Well, it is confession time. I am that person, and I did it.

It is true that the Institute of Public Affairs runs an NGO Project. And every piece we have written has been 'overtly' published on the Web. ('Hey, Mike and Don [co-conspirators], why don't we have a competition to rename our (c)overt operation?')

In recent years, just like many academic researchers, we became aware of the enormous growth in civil activism in Australia and internationally, and decided to research it. Given that the IPA is part of the sector, and is in favour of liberty and the rule of law, we concluded, not unreasonably, that private associations should be responsive to their members. Nevertheless, we argued that, where NGOs seek to affect pub-

lic policy, particularly where they receive public funds or have high-level access to government, we thought it best that those funds and those relationships be 'overtly' disclosed to the public.

Because of these views, the Commonwealth was approached to see if it was interested in developing a study of the relations between the government and NGOs. The IPA was awarded a contract to undertake a research study entitled, 'The Protocol: Managing Relations with NGOs'.

The project is part of the work programme of the Prime Minister's Community Business Partnership, and aims to develop a 'trial protocol' for public disclosure of NGO standing with Government. The objectives of the project are to make information about NGOs that have relationships with Government 'overtly' accessible and to increase awareness of the relationships between NGOs and Government.

The research recognizes the right of free association of NGOs and will not seek to erode their privacy, nor seek to expose any confidential material. The focus is on the rights of the government and the taxpayer to know enough about an NGO to make an informed judgement about granting access and resources.

As a separate matter, although related to disclosure of public resources, the IPA made a submission to the Charities Review and has recently responded to the Treasurer's Charities Bill 2003 Exposure Draft. The IPA does not wish to restrict criticism of public policy by recognized charities, or anyone else for that matter.

Nevertheless, with the wider definition of public beneficial work—

moving well beyond the welfare sector—and the changing nature of such work—towards political advocacy—it is timely to ask what activity is assisted by taxpayer funds. To the layman, advocacy work means lobbying. It means lobbying government to change the law and/or provide programmes for the purposes that the organization argues are beneficial. A government is well within its rights to define what should and should not attract a public subsidy.

The difficulty is, how much lobbying is too much lobbying? The Commonwealth could follow the US path of specifying how much lobbying may be undertaken by charities. However, it is probably unwise to be too specific about how much policy work is acceptable. After all, governments want policy work from NGOs. A way through the need for public scrutiny and the insistence that charitable work involves lobbying, is to let the donors decide.

If charities were required to publish how much money they spent in raising their funds, and how much they spent on policy work, then donors could decide whether or not to give. The donor market would be better informed, not just about the 'cause', but the efficiency with which the funds are gathered, and how much is spent on the conferences, education and lobbying.

There you have it, a major 'overt' conspiracy on the part of your IPA, to have your government disclose its relations, 'overtly', with the unelected non-government sector. Who's 'bitter'? I love my life!

Dr Gary Johns is a Senior Fellow with the Institute of Public Affairs

IPA

Is Social Capital the New Socialism?

JOHN ROSKAM

THE last century of world history has revealed the results of governments' efforts to regulate the economic behaviour of individuals. But as socialism is retreating, new theories of regulation are emerging. These new theories don't aim to regulate the economic relations between individuals; instead, they seek to regulate the social relations between them.

The desire to increase the community's 'social capital' is the justification used by the advocates of the new theories of regulation. In recent years, politicians and public policy experts have considered how governments can increase social capital. Few, however, have paused to ask whether governments *can* create social capital. Even fewer have considered whether governments *should* create social capital.

An important research paper by the Productivity Commission *Social Capital: Reviewing the Concept and its Policy Implications* published in July this year provides a valuable antidote to the 'there's a problem and the government should fix it' school of policy-making. The report quotes Fukuyama:

States do not have many obvious levers for creating many forms of social capital. Social capital is frequently a by-product of religion, tradition, shared historical experience, and other factors that lie outside the control of any government.

If 'social capital' is defined as norms and networks which encourage co-operation and trust between individuals, then the existence of social capital can be beneficial. Social capital reduces transaction costs, assists the diffusion of knowledge, and can enhance the sense

of community well-being. Numerous academics around the world have been active finding connections between levels of social capital and everything from a country's economic performance to the incidence of the common cold.

CAN GOVERNMENT CREATE SOCIAL CAPITAL?

Whether governments can create social capital is questionable. The 'crowding out' effect of government action has long been recognized, and nowhere is it more apparent than in the area of social capital. As in recent decades governments have taken over the provision of health, welfare and education, so the voluntary services sector has been reduced.

Given that social capital is determined according to the quality of relationships between individuals, a vast array of legislation and policy positively destroys social capital. For example, until very recently, Australia's industrial relations system has been based not upon the concept that individuals can freely negotiate their employment conditions with other individuals, but upon the concept that the state is required to arbitrate *between* individuals—the very antithesis of social capital.

SHOULD GOVERNMENT CREATE SOCIAL CAPITAL?

The idea that the state should attempt to create and enforce particular norms is not new. The issue is *which* norms and *how* should they be enforced. For instance, the community accepts that wearing seatbelts should be compulsory, but that church attendance should not be.

It could be argued that government efforts to create social capital contra-

dict a fundamental tenet of political liberalism. Within reasonable limits, how an individual decides to relate, or not relate, to others is of interest to no-one other than that individual. The best exposition of this principle remains Mill's *On Liberty*—unless an action concerns another, no person should be compelled to undertake that action, even if it is thought that do so would make that person 'happier'.

Certainly there are many aspects of social capital theory to which liberals should be not unsympathetic, such as the emphasis on individual responsibility, and local rather than centralized decision-making. Encouraging such efforts should not, however, provide cover for any broader agenda of state activity. According to the Productivity Commission:

Implicit in many proposals for government action to maintain and build social capital is the view that people and private institutions, when left to their own devices, will not generate sufficient social capital to serve the overall community interest.

Such opinions come from those who believe that social capital has diminished as a result of economic rationalism and there being 'too much market'. On the contrary, there hasn't been 'enough market'. The claim that 'market logic' undermines 'trust, co-operation and mutuality' fails to comprehend that the entire basis of markets is mutuality. It is only when people and private institutions *are* left to their own devices that social capital can be generated.

John Roskam is a Research Fellow at the IPA

IPA

REVIEW

Education Agenda

KEVIN DONNELLY

Conserving Social Capital

Judged by the number of 'left-wing' and Labor Party commentators who have taken the Australian Treasurer to task over his recent speeches about social capital, it is obvious that Peter Costello has hit a raw nerve.

Since Eva Cox's Boyer Lectures and Mark Latham's early work at the Centre for Independent Studies, the reality is that the 'left' has long acted on the belief that social capital is a natural part of its turf. Such is no longer the case.

The first thing to note about social capital—those features of social life, networks, norms and trust that enable people to act together more effectively to pursue shared objectives—is that its natural home is on the conservative side of politics.

As those familiar with the thoughts of Sir Robert Menzies will know (in particular his radio speech *The Forgotten People*) there is much about empowering community and individuals at the local level that resonates with Liberal philosophy.

Menzies' arguments in support of the 'middle class' against the powerful and intrusive interests represented by organized labour and 'big' business were based on the premise that individuals, both by themselves and working together, have the best chance of achieving stability, prosperity and success.

Although nearly always misquoted, Margaret Thatcher expressed the same belief when she said: 'There is no such thing as society. There is only you and me'. In part, the reaction is against the welfare state and the inclination to forsake responsibility and to allow others to solve problems.

That social capital is more attuned to Liberal philosophy and the conservative side of politics can be proven by looking at education and the work of schools.

Under Labor Governments across Australia, schools are controlled by a centralized bureaucracy where principals, teachers and school communities are controlled by a rigid industrial system and an overly intrusive and wasteful system of accountability.

The model is 'top down' and all schools are made to fit the same straightjacket. As a result, innovation suffers, communities disengage and many parents vote with their feet and seek the non-government alternative.

The second approach is more 'horizontal'—where those at the local level are empowered to make decisions, to take responsibility and to shape their children's education in a way that best suits their needs, abilities and interests.

Overseas research related to 'charter schools'—where parents are given control of their schools and the power of the bureaucracy and unions is reduced—proves that civic engagement, reciprocity and trust increase.

In particular, in the ghettos and those areas considered socially deprived, there is a new-won sense of engagement and community-building. As argued by Noel Pearson, in relation to Australia's indigenous communities, the best way to help those 'at risk' is to give them the power to take control.

The reality is that 'top down' models associated with state paternalism—where attempts to remedy complex and sensitive social issues are based on more money and increased government interference—do not work.

That statism does not provide the answer explains Latham's argument that the 'left's' commitment to government intervention is misdirected. In areas such as welfare, more government assistance promotes a dependency mentality where individuals and communities lose the ability to take control of their own lives.

It is also true that simply increasing taxes and allowing governments to spend more is a very inefficient and counterproductive way to strengthen society. No amount of government ingenuity or support can ever change the facts that children are best raised at home and that parents must always be the primary care-givers.

Of course, public debate about social capital should not simply seek to score points. Although I argue that the 'left's' approach is misdirected and wasteful, as a member of the Victorian Division of the Liberal Party, I also have to acknowledge that the Kennett Governments failed the social capital test.

Consumed by the importance of sound economic and fiscal policy, Kennett ignored the fact that communities place as much value on civic engagement and strong social networks as they do on balancing the books.

The Treasurer has proven himself a very adept and successful manager of the Australian economy. By recognizing that 'man does not live by bread alone', he has also demonstrated a canny ability to highlight contradictions in the 'left's' perspective and to redefine social debate to better suit a conservative agenda.

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I P A

HECS: Not the Bad Hex It Was Made Out To Be

NORMAN LaROCQUE

WHEN the Higher Education Contribution Scheme (HECS) was introduced in 1989, opponents claimed that it would deter students—especially those from disadvantaged backgrounds—from pursuing higher education.

The *National Report on Higher Education in Australia (2001)*, released recently by the Department of Education, Science and Training (DEST), concludes that the introduction of HECS does not appear to have had this effect. In fact, the report, which provides a comprehensive overview of the higher education system in Australia, argues that students' increased private contribution toward the cost of their education actually *facilitated* the significant expansion of the higher education system during the 1990s.

The DEST report shows that the private share of total institutional revenues grew from 23 per cent to 32 per cent between 1992 and 1998. Fee-pay-

ing students formed the most important component of this. The report also shows that HECS repayments by students increased nearly eight-fold to \$900 million during the 1990s (see Figure 1).

While tuition fees and HECS repayments went up, so did higher education participation. Higher education enrolments in Australia grew by 30 per cent—from 400,000 to 525,000—between the late 1980s and the year 2000. Of greater relevance to the debate over HECS is the fact that enrolments among students from socio-economically disadvantaged backgrounds increased steadily during the 1990s and the proportion of such students among the higher education population stayed constant at 16 per cent.

The DEST report shows that the benefits of increased private responsibility for higher education financing have not been limited to participation. The combination of an increased emphasis on market mechanisms, and the

growing diversity of institutions, programmes and course delivery arrangements, led to more attention to quality assurance and performance monitoring in the higher education sector. Similarly, growth in fee-based courses and increased enrolments in private institutions produced increased pressures on universities to meet students' needs.

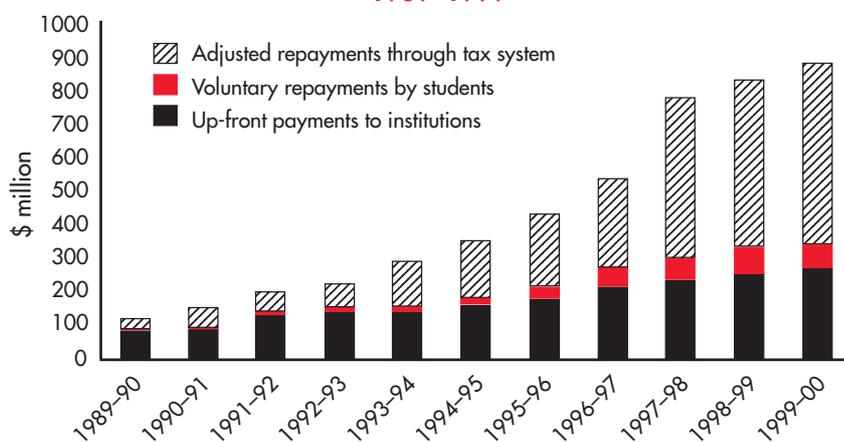
Consistent with these conclusions, there has been rising overall satisfaction with tertiary course quality in Australia since the mid-1990s (see Figure 2).

The DEST report's results on the effect of tuition fees on access are not surprising and are consistent with a range of research from both Australia and abroad.

A 2002 report by Bruce Chapman and Chris Ryan of the Australian National University found that the introduction of HECS was associated with 'aggregate increases in higher education participation' and that HECS had not resulted in decreases in the participation of prospective students from relatively poor families. Like the DEST report, Chapman and Ryan concluded that the mid-1990s HECS reforms were associated with increases in the participation of individuals irrespective of family wealth.¹

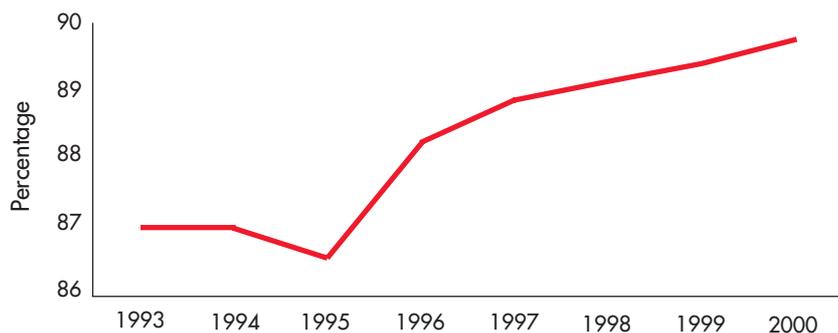
The Australian experience is consistent with that of New Zealand, which saw the number of Equivalent Full Time Students almost double at the same time as tuition fees increased from near zero to an average of around \$NZ3,500. The same was true for disadvantaged groups. Between the mid-1990s and the year 2000, enrolments among Maori increased by nearly 50 per cent and the share of Maori among

Figure 1: Repayments Under the Higher Education Contribution Scheme, 1989–1999



Source: *National Report on Higher Education in Australia (2001)*, figure 1.7

Figure 2: Overall Student Satisfaction levels, 1993–2000



Source: *National Report on Higher Education in Australia* (2001), figure 7.6

all tertiary students grew from 10.7 per cent to 13.9 per cent.² The most sophisticated analysis of the New Zealand experience, conducted in the mid-1990s by Auckland University researcher Sholeh Maani, found that participation had not been significantly affected by the introduction of tuition fees.³

Much international research suggests that higher education participation is relatively insensitive to fees.⁴ Indeed, too much emphasis is placed on the role of fees as a barrier to higher education. While this may serve the interests of certain groups, it does little to address the real barriers that face students from disadvantaged backgrounds.

The decision about whether to pursue higher education clearly depends on more than just fees. Countries such as Korea and the United States have both high fees and high participation. Furthermore, OECD data show that countries with the lowest entry rates to higher level tertiary education in 1999 all had very low levels of private spending on education.

Parental expectations, student aspirations, culture and academic preparation are just as important, if not more important in determining higher education participation. A policy of lowering university fees would do little or nothing to address these factors and would benefit primarily students from relatively well-off families. This suggests that barriers to higher education participation are best addressed in other ways and at earlier levels of education.

Of course, market-based higher education reforms won't fix everything. As the DEST report notes, there was little progress over the 1990s in increasing the proportion of students from disadvantaged backgrounds in Australian higher education. And, as in other countries, students from disadvantaged backgrounds continue to have lower participation rates in higher education than those from higher income backgrounds.

A policy of higher tuition fees, coupled with appropriate student finance programmes, offers a better and more equitable means of ensuring both quality and access in higher education. Requiring students to pay tuition fees is fair given that students are, on average, from wealthier households than taxpayers generally, and given that graduates enjoy the bulk of the benefits, including higher lifetime earnings.

In moving toward greater student financing of higher education, Australia and New Zealand have not been alone. They are part of a global trend. Between 1995 and 1999, 10 out of 19 OECD countries reported an increase in private spending on tertiary education institutions of more than 30 per cent. During the 1990s, many Canadian provinces removed fee restrictions on professional programmes. Britain introduced a student fee in the late 1990s and has recently proposed a significant increase in its level, along with the introduction of a deferred payment scheme not dissimilar to HECS.

The release of the DEST report on higher education has unfortunately

been dominated by discussion of what's supposedly missing from it. But this political sideshow should not diminish the report's important policy messages. Its conclusions provide further support for the Australian government's proposed higher education reforms announced in May 2003. One hopes that the report will help to insulate Australia against the politically-driven backsliding that has afflicted New Zealand tertiary education policy since late 1999.

Australian students, staff and institutions have much to gain from a less regulated, more market-driven higher education system. Australia has made good progress toward such a system since the late 1980s, but much more remains to be done. The message from the DEST report is that the focus over the coming years should be on moving higher education policy forward, not turning back.

NOTES

1. Chapman, Bruce and Chris Ryan (2002) *Income-Contingent Financing of Student Charges for Higher Education: Assessing the Australian Innovation*, Discussion Paper No 449, Centre for Economic Policy Research, Australian National University, Canberra, p 13.
2. For more detail, see LaRocque, Norman (2003) *Who Should Pay? Tuition Fees and Tertiary Education Financing in New Zealand*, Education Forum, Wellington.
3. Maani, Sholeh (1997) *Investing in Minds: The Economics of Higher Education in New Zealand*, Institute of Policy Studies, Wellington, p 189.
4. See for example Industry Commission (1997) *Industry Commission Submission to the Review of Higher Education Financing and Policy*, AGPS, Canberra, p 16.

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I P A

**WHERE FROM AND WHERE TO?**

The policy concerns of sensible bodies such as the Institute of Public Affairs are largely related to big impact, reasonably near-term issues. Will raising tax increase or reduce prosperity? Is enough known about the Greenhouse effect now to warrant possibly costly remedial measures in the short term? If so, how much should be spent? Will a change in welfare policy affect the proportion of the economically productive to the economically dependent 50 years hence?

All those matters, and many others, are vitally important to the health of the individual, the family, the community, the nation and the world. But they occupy a narrow position on the time-line trod by humanity. That time-line began, somewhat vaguely, somewhere between a hundred thousand and a million years ago and I, for one, hope it will continue into the future forever.

Our knowledge of humanity's history before 10,000 years ago is derived from the sciences, rather than the humanities. What the future may present is also more likely to be predicted by the sciences than the humanities. And despite uncertainties and controversies about our understanding of the past, it seems as clear as plain English upon a printed page by comparison to guesses about the future.

Yet it is through an understanding of our shared, human past that the range of future paths may be guessed at and, as we come to their beginnings, most wisely chosen between.

The science of which I am writing is a strange combination of

mathematics, biology, anthropology, cybernetics, chemistry and, no doubt, several others. Those practising it are called evolutionary biologists, although some of its more famous advocates are zoologists (Richard Dawkins), psychologists (Steven Pinker) and science journalists (Matt Ridley).

But there are plenty of others who believe they have an insight into where discoveries about the nature of human beings and technology may lead us in the future. It is wise to start thinking about the implications of these things now, because major changes affecting the nature of people will soon be possible. Those changes will involve technological enhancements to the individual, biological or electronic or some combination of the two. They may be by means of pre-natal or even pre-conception genetic manipulation or later additions to the human superstructure. And when they become possible, they will inevitably happen, somewhere in the world, even if outlawed.

Those thinking about these issues, usually with optimism, are often known as transhumanists. Here I will lay out some Websites that offer windows onto this thinking.

And if you think that some of these ideas seem outlandish, even impossible, remember that the year 2003 marks the 50th anniversary of the identification of DNA for what it is, and the centenary of the Wright brothers' inaugural flight. There are hundreds of millions alive today who were born when the chemistry of the gene was entirely unknown, and thousands who were born when mankind's feet were incapable of leaving the ground.

TRANSHUMANISM

Now that is a spooky word. When I first stumbled across it, I had a vague conception of severed heads in cryogenic storage tanks, and that strange cult that thinks one can live forever merely by banishing unhealthy thoughts of death.



In fact Transhumanists are a bunch of technologically literate optimists who, in the words of the World Transhumanist Association, believe:

Humanity will be radically changed by technology in the future. We foresee the feasibility of redesigning the human condition, including such parameters as the inevitability of aging, limitations on human and artificial intellects, unchosen psychology, suffering, and our confinement to the planet earth.

And:

Transhumanists think that by being generally open and embracing of new technology we have a better chance of turning it to our advantage than if we try to ban or prohibit it.

The predictions in the first quotation may (or may not) be iffy, but I can readily go along with the sec-



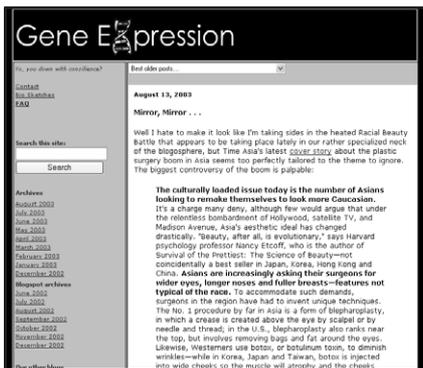


ond. The 'Trans' part of Transhumanism takes into account that humans may well be somewhat different in the future, with electronic or biological enhancement, and that we may end up sharing the universe with sentient others (particularly some form of artificial intelligence). Go to:

www.transhumanism.org

GENE EXPRESSION

Where do we come from? Where are we going? And what distinguishes groups of people from each other? A group Weblog called Gene Expression deals with these questions, with a heavy emphasis on genetics and a more than passing interest in that most dangerous of subjects: racial differences. Funnily enough, there is a great deal of study of this subject under the euphemistic name 'population genetics', although many of its practitioners publicly maintain the politically correct stance that there is no such thing as race—even while they study it.



While some might think of Gene Expression as a home for crypto-KKKers, the participants (most of whom use pseudonyms to avoid losing their jobs) waggishly label themselves as 'part-Asian/

black/Jewish white supremacists'. Go to:

www.gnXP.com/

ON RELATED THEMES

Check out also FuturePundit at:

futurepundit.com/

Watch out for the Singularity (an anticipated point of runaway technological development) at:

www.singularitywatch.com/

Then there is Steve Sailor, who explains why the US has lots of Asian bachelors and African-American spinsters, why the former narrowing of the gap between female and male athletic performance has been reversed, and why various ethnicities so dominate particular sports. Go to:

www.isteve.com/

BUT WILL YOU LIVE LONG ENOUGH TO SEE THESE CHANGES?

No-one knows, of course, but actuaries can give you a range of probabilities. The centre-point of that range is constantly increasing.

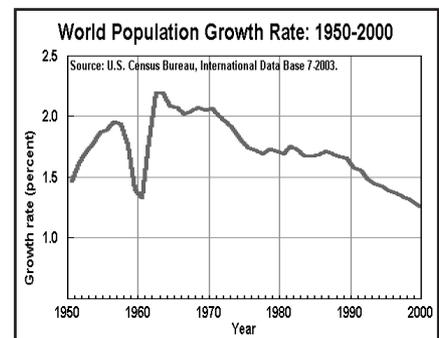
Like the 'nearing depletion' of petrol, the plateauing of average lifespan has been constantly predicted for over 70 years. But, on average, the predicted plateau has been exceeded somewhere in the world within five years of its pronouncement.

Remember these two numbers: 0.243 and 0.222. They are the slopes of the lines, for women and men respectively, which chart actual maximum life expectancy for the last 160 years. For women, that means that for each decade that passes, life expectancy increased by nearly two and a half years. For men,

a little less. And neither slope shows any sign of flattening, even over the last few decades. It seems reasonable to assume that, contrary to dozens of official international forecasts, the trend will continue, giving women (in well-off countries) a life expectancy of around 95 years by 2040, and men somewhere in the high 80s. At least, so says a persuasive 2002 article in *Science*. Go to the following address and click on the 'Full Text' link:

www.demogr.mpg.de/publications/files/brokenlimits.htm

Of course, this progress can always be interrupted. All it takes is a particularly dumb government. Consider the following graph which shows the rate of world population growth since 1950. The enormous downwards spike around 1960 can be entirely attributed to



China's murderous Great Leap Forward. Go to:

www.census.gov/ipc/www/img/worldgr.gif

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.

Summaries and excerpts from interesting reports

FLAT TAX TAKES HOLD IN 'NEW EUROPE'

When Donald Rumsfeld made his famous crack about 'New Europe' versus Old, he was speaking about foreign policy. But it turns out that the spirit of the new is also sweeping economic policy: Flat tax fever is spreading across Eastern Europe.

Russia instituted a 13 per cent flat rate on income in 2001, and its success is now breeding imitators:

- In May, Ukraine reformed its tax code along Russian lines with a 13 per cent top marginal rate.
- The Slovak Republic's ruling coalition has just agreed to implement a 19 per cent flat tax beginning next year.
- Poland's Prime Minister Leszek Miller has expressed a strong interest, and the opposition Civil Democratic Party in the Czech Republic is also supporting it.

The impetus here seems to be the power of the positive flat tax example, in the Baltic states and especially in Russia.

- Estonia (26 per cent rate) and Latvia (25 per cent) enacted their own flat taxes during the 1990s, albeit not as boldly as Russia.
- In 2002, those economies grew an average of 6.1 per cent, among the highest rates in Europe, old or new and their budget deficits are also well under control, which certainly can't be said about old 'progressive' tax-rate Europe.

The theory of the flat tax is that a low rate across a broad tax base will improve both tax compliance and efficiency. And that's exactly what's happening in Russia, where tax avoidance used to be a national pastime.

Source: Editorial, 'Flat Tax Fever,' *Wall Street Journal*, 11 July 2003.

For text: <http://online.wsj.com/article/0,,SB105788085847059000,00.html>

For more on Flat Tax: <http://www.ncpa.org/iss/tax/>

BBC COVER-UP EXPOSED

According to a report in *The Economist* things are looking sticky for the BBC in the inquiry into the death of David Kelly.

On 29 May, Andrew Gilligan, defence correspondent of 'Today', the BBC's morning radio current affairs programme, reported in a live unscripted interview at 6am, that Downing Street dishonestly 'sexed up' a dossier published last September. He said that it inserted, against the wishes of the intelligence services, the claim that Iraq could deploy weapons of mass destruction within 45 minutes.

Until now, the BBC has solidly defended the story. But the inquiry has exposed an e-mail from Mr Gilligan's editor branding the story 'marred by flawed reporting'. Apparently, Mr Gilligan took no pen, wrote no notes nor recorded the conversation with David Kelly. Nor did he bother to check his explosive story with Downing Street to get its reaction.

Another BBC reporter, Susan Watts, who both took careful notes and taped her conversation with Mr Kelly, claims the most explosive allegation, that the dossier was 'sexed up', was gossip, and not reportable. Ms Watts also claims she was under pressure to 'mould' her reports 'not for any news purposes, but so that they corroborated Mr

Gilligan's'. She felt this was 'misguided and false'.

Mr Gilligan is a symptom of the BBC's changing relationship, not just with government, but also with news. During the general strike in 1926, Lord Reith, its first director-general said, 'Assuming the BBC is for the people, and that the government is for the people, it follows that the BBC must be for the government in this crisis too'. *The Economist* concludes, 'Those days are long gone'

Source: *The Economist*, 16 August 2003.

SELF-HELP PROGRAMMES GAIN RECOGNITION

Psychologists want to know more about how to help those who help themselves. Many thousands of self-help groups exist worldwide, but little is known about how they work conceptually, says Keith Humphreys of Stanford University.

Among the different types of such groups, scientists know the most about the ones focused on addiction, followed by those dealing with mental illness, Humphreys said.

Many people think self-help groups begin and end with Alcoholics Anonymous. And it is the biggest self-help group on earth, Humphreys explains:

- Despite its worldwide influence, AA was not widely appreciated among mental health professionals.
- That changed in the last decade, when a National Institute of Health study found that a grass-roots 12-step program like AA held its ground compared with two professionally run

treatment programmes.

- Many experts thought the 12-step programme would be, in essence, a no-treatment control for the experiment, so they were shocked that the programme was as successful as the two professional ones.
- And in fact it was superior on certain measures, such as abstinence.

Humphreys found that 12-step programmes, compared with professional cognitive behavioural therapy (which focuses on thought processes to help change behaviour), can greatly reduce other health care costs—on average, by almost \$4,800 per patient in one study. In essence, people in the 12-step programmes started turning to group members for some of the support that they had been visiting doctors for.

Source: Karen Patterson, 'Self-help groups' success assessed: Psychologists call for long-term studies of unique programmes', *Dallas Morning News*, 11 August 2003.

RICE TARIFFS HURT JAPAN

Japan now uses a quota system to import less than 10 per cent of all rice consumed, tariff-free; the rest runs up against that whopping 500 per cent wall. As a result, Japanese consumers pay three to four times more for food than people do elsewhere.

According to economist Keiji Otsuka:

- If the tariffs were abolished or significantly reduced, Japan would find itself importing more than half the rice it consumes.
- An open Japanese market would probably create a trickle-

down effect for other rice-producing nations.

- Farmers in California, Australia and China—where producer prices are one-tenth those in Japan—would be the biggest beneficiaries; they produce the short-grain, stickier Japonica rice that Japanese consumers prefer.
- Poorer tropical countries unable to produce such rice would probably sell more of their own rice to China, which would most likely shift some of its production over to Japonica for export.

The country's farm policies have stymied many potential free-trade deals with exporting countries. The farmers' aversion to regional and bilateral trade agreements has also hurt Japanese manufacturers in dealing with countries where competing nations enjoy duty-free privileges. Over the long run, it could affect Japan's critical relationship with China, which is eager to sell Japan cheap rice.

Japanese farmers equate that kind of change with the end of Japanese agriculture, but Otsuka and other Japanese economists don't agree. They say a restructuring of the farming sector might mean that farms of tomorrow would be larger and more efficient.

Source: Andres Martinez, 'Who Said Anything About Rice? Free Trade Is About Cars and PlayStations', *New York Times*, 10 August 2003.

EUROPE'S POPULATION TO FALL

Fertility rates across Europe are now so low that the continent's population is likely to drop mark-

edly over the next 50 years and affect its ability to compete and take care of pension obligations, say observers.

The size of Europe's population implosion is staggering:

- The United Nations predicts that Europe's population will fall by 6 per cent from 482 million to 454 million by 2007.
- By 2050, the number of Italians may have fallen from 57.5 million to 45 million, while Spain's population will drop from 40 million to 37 million.
- Germany's population could fall from 80 million to less than 25 million by the end of the century.

The consequences of a falling economy are severe:

- In Europe there are currently 35 people eligible for pensions for every 100 people of working age.
- By 2050, there will be 75 pensioners for every 100 workers.

This will severely strain government finances in the future. Many countries, such as Germany and Italy, are already paying nearly 30 per cent of revenues on pensions.

A recent report from the French Institute of International Relations predicts that, by the middle of the century, the EU's Gross Domestic Product will be growing at just over 1 per cent a year compared with more than 2 per cent in North America and at least 2.5 per cent in China. The EU, the report gloomily concludes, faces a 'slow but inexorable "exit from history"'.

Source: 'Europe's Population Implosion', *The Economist*, 17 July 2003.

What's A Job?

KEN PHILLIPS

Commission Rules. Okay!

It's normally considered that industrial relations commissions are independent umpires who settle disputes between employers and unions. Commissions are the lynchpin to Australia's industrial relations systems which exist to protect workers from the excesses of bosses—or so the moral justification goes.

But a recent comment by a commissioner of an industrial relations commission during proceedings raises queries about the real role played by commissions. In a case involving an agreement between a union and an employer, there was a discussion as to whether clauses in the agreement breached areas of commercial law. The commissioner said the following:

... the fact that a clause in an enterprise agreement has been approved [by the Commission] and something is done or purported to be done under that provision which is contrary to law does not necessarily mean that the agreement or provision should not have been approved If the agreement is made and if someone thereafter, an employer or union or employer organisation, does something contrary to law by reference to that, then ... in other words, it is not really a matter which has to be considered in the context of the agreement.

Based on this statement, it could be taken that the role of industrial commissions is to rubber-stamp deals struck between unions and employers and to turn a blind

eye to broader legalities. In other words, industrial commissions operate from the narrow perspective of industrial legislation and ignore wider issues of law and justice within the community. Is this the case?

If an employer and a union were to agree to commit fraud, should a commission endorse the agreement? What about agreements to commit property damage, or even murder? Should a commission endorse such agreements? The answer would surely be 'no'. But what then of the commissioner's statement? The case involved possible breaches of commercial and competition laws, which the commissioner appeared to consider could be ignored provided it could be rationalized through the smoke-screen of industrial relations legislation.

The commissioner, however, seemed not to understand the implications of the comments. If, as a matter of principle and public policy, a court can disregard areas of the law outside of its strict legislated jurisdiction, then the degree of blind ignorance to be applied is merely a matter of what the court feels will not attract wider criticism. The implication is that the legal system is simply a creature of politics and that ideas of consistency in the application of rule of law are pliable. This is a slippery slope to institutionalized corruption.

Perhaps this explains how the corruption in the Australian commercial construction sector identified by the Cole Royal Commission has become systemic within the industry. If commissions have routinely endorsed industrial

agreements that possibly breach trade practices and other commercial law, it's not surprising that the sector also suffers from violence, intimidation, thuggery and other criminal activity. If commissions regularly accept clauses breaching one area of law, this sends signals to would-be law breakers that other areas of the law can likewise be broken.

What does this say of the potential liability of the commissioners themselves? Ordinary citizens are told that ignorance of the law is no excuse for law-breaking. Does this principle apply to industrial commissioners? If a commissioner endorses an agreement with law-breaking clauses and the commissioner chooses to ignore the inherent potential for law-breaking, does the commissioner become complicit in future law-breaking?

What makes for even greater concern is if this commissioner's view reflects a standard view within the community of industrial commissioners. If this were the case, Australia's industrial relations commissions start to look like institutions of subterfuge. Unions and employers will be able to make law-breaking deals and the industrial relations system will give such illegality a cloak of legal cover. Where does it end?

Recently, Australia sent a military contingent to the Solomon Islands to re-establish the rule of law. Perhaps we need to consider our own industrial relations island within the same context!

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

I P A

REVIEW

Letter from London

JOHN NURICK

Blair's Crisis of Trust

Most Friday evenings of the year—any year since 1948—there's a BBC radio programme called *Any Questions?* It's broadcast from a different place each week, with a chairman, a local audience to ask questions, and four panelists to answer them—one Labour, one Conservative, one minor party and one independent.

It's very old fashioned. The chairman introduces the panellists and calls for the first question. A member of the audience—selected in advance—stands up and reads it out. The chairman passes it to each member of the panel in turn and then calls for the next question.

Often, it's painful listening, with small-minded questions, smug posturing answers, and predictable audience reactions. But it's effective enough to have survived the decades, and sometimes it's fascinating. This happened in the last shows before the summer break, when *Any Questions?* audiences showed—both by what they applauded and when the chairman called for a show of hands—that the people no longer trust Mr Blair and won't give him the benefit of the doubt.

In the last reshuffle, Tony Blair created a new position of Minister for Children, responsible for functions previously spread across several departments. This was a partial response to the report of the inquiry into the death of Victoria Climbié, a child who was slowly tortured to death by the aunt with whom she was fostered and the aunt's lover, even though the social and health services were aware of the case. The inquiry identified no fewer than 12 occasions in 10 months on which the authorities could have intervened but failed.

The new minister is Margaret Hodge, who was leader of Islington,



an inner-London borough, in the late 1980s and '90s—when paedophiles working in the social services systematically abused children in the borough's care. Ms Hodge first reorganized social services in a way that made the conspiracy easier and then responded inadequately to reports of abuse brought to her by concerned social workers, allowing it to continue for more than two years before a newspaper campaign forced the council to take action.

Ms Hodge regrets what happened, but is not exactly repentant. Back then, she told the BBC, 'there was a deep lack of understanding, by myself, by the social services, by policymakers, by all of us, as to what was happening in children's homes. We've moved on from that'.

That may be good enough for Tony Blair, but not for the *Any Questions?* audience. When the Conservative panellist said her appointment was 'an insult to the professionals who work very hard to try and protect children from the kind of disastrous consequences which Margaret Hodge deliberately presided over in her tenure at Islington Borough Council', they applauded loudly. When the Labour panellist—a government minister—tried to defend her, they sat on their hands.

But Ms Hodge was soon forgotten. The following Friday the first question was, 'If Tony Blair has any honour left, shouldn't he resign on the question of weapons of mass destruction as an excuse for war?' The panellists didn't go that far, but three of them—including a pro-war Conservative and a loony ecologist—and the entire audience were prepared to believe that Tony Blair misled Parliament and the people in the months before the war.

Since then, *Any Questions?* has been on holiday, but things have got worse for the government. The Hutton inquiry into the death of its key advisor on Iraqi weapons is clearing it of the darkest suspicions but nevertheless gravely damaging its credit.¹ A *Sunday Telegraph* poll on 24 August showed that 67 per cent of voters believed the government had deceived them about WMD and 33 per cent thought Mr Blair should resign—though 54 per cent still supported the war.²

Mr Blair wants to introduce commercial GM crops, to win a referendum on joining the euro, and to continue 'modernizing' the legal system by abrogating traditional rights and limiting trial by jury. To achieve any of these unpopular goals he must persuade people to change their minds. Without our trust he won't succeed. The Hutton inquiry won't force Mr Blair's resignation—but unless it spectacularly vindicates him, he is a lame duck from now on.

NOTES

- 1 www.the-hutton-inquiry.org.uk/
- 2 www.tinyurl.com/l132

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

Compiled by IPA staff, columnists and consultants ...

METABOLISM FASCISTS

Forget discriminatory 'fattism'. The crypto totalitarians are now focusing on fat people.

In Texas, a bill introduced by a Republican member of their House of Representatives wants all Texan restaurants to include detailed nutrition information for every food item on the menu.

Another card-carrying member of the food police from the Texas Department of Agriculture, has unilaterally banned a long list of foods to be 'used during school parties'. Children sent to school with lollies will be prevented from sharing them with friends.

It hasn't finished. A *New York Times* columnist would have every American weigh in at the post office on tax-filing day each year. Slender taxpayers would receive a credit, while 'the people ruining our health care economics would pay the standard tax', he said. 'People who are able to be disciplined and lose weight should be rewarded.'

A public official joined in, proposing regulations for food portion sizes and charging for broadcasters screening sedentary sports (for example, car racing).

The problem is, as one metabolism fascist complained, foods today are too 'convenient', 'good-tasting', and 'cheap'. People are eating them for ... 'pleasure'.

CONSERVATIVES ARE SICKOS

Conservatives are seriously ill, or so it appears. 'You have only to look at the world's conservatives to know something is badly wrong', says Philip Jones in *The Age* [5 September]. He quotes the American journal *Psychological Bulletin*, reporting that 'conservatism emerges as a set of neuroses nourished by aggression, dogmatism and an intolerance of ambiguity'. Hmm ... like the Refugee Action Collective?

[Conservatives] share a propensity for 'moral certainty and a dislike of nuance'. Hmm ... like the bridge storming advo-

cates for reconciliation and an apology to Australia's aborigines? 'They were, in short, fundamentalists. They proselytised for 'a return to an idealised past'. Doesn't he mean the environmentalists?

Jones continues. 'It is interesting to follow the media apologists for conservative dogma. They despise the left'. Hmm ... like the hated Geoffrey Blainey? 'They are obsessed with it ... they cannot leave it alone ... Is the Freudian unconscious tormenting them? Do they need treatment?' Pardon?

Well no. There is something going on and you don't understand, do you Mr Jones? We strongly suggest that you keep taking your medication.

ALL THAT GLISTENS

Adelaide University seems to be doing it hard, both for ideas and for funding. But then, the one may just follow the other as night follows day. The Department of Gender Studies announced a One Day Departmental Forum on Whiteness. The topic? '(Inter)disciplining Whiteness'. No, that's not 'Disciplining Whities'.

The notice went on to explain. 'This Forum seeks to bring together papers which critique and situate discourses of 'whiteness' within the interdisciplinary interstices of Gender Studies, History, Media Studies, Cultural Studies, Religious Studies and Literary Studies. This event seeks to create a space for an open dialogue and debate around the multidirectional facets of Whiteness Studies.'

If you think all these academics must be having it easy in cloud cuckoo land, have some sympathy. At the end of the notice is a heart-wrenching appeal: 'Due to current draconian academic financial conditions, Gold Coin Donations will be welcome from non-departmental attendees'.

SACRED TREES

It was reported in the *Herald Sun* (24 August 2003) that during the January

bushfires a 60-metre-wide clearing that runs for 35 kilometres through rugged bushland in the Snowy Mountains provided important sanctuary for kangaroos, koalas and firefighters as well as protecting electricity supply. However, because the firebreak was illegally cleared, it must be replanted! The organization responsible for the clearing, electricity supplier TransGrid, has apparently already apologized profusely and paid up to \$500,000 in fines and settlement after legal action was brought against it by the NSW and ACT Environment Protection Agencies, NSW Department of Land and Water Conservation and National Parks and Wildlife for the illegal clearing. Now Greening Australia has a contract worth over \$300,000 to undertake the replanting.

We conclude: in India cows are sacred while in Australia it is trees.

UN INCOMPETENCE

Mark Steyn once said that there is no disaster in the world that the UN couldn't make worse.

Commenting in *The Spectator* [30 August] about the recent bomb attack on the UN Headquarters in Baghdad, he points out that it happened not only because the complex was virtually unprotected—officials had turned down offers of increased security from the US military—but that the guards in the building itself were Baathist spies, originally assigned by Saddam as the UN's minders. Apparently the UN decided to keep them on the payroll. Nonetheless, hurrying back to New York after the tragedy, Kofi Annan held a hasty press conference at Stockholm airport to make sure everyone knew who to blame. But, as Steyn points out, it wasn't the coalition forces who filled the UN building with Saddamite agents. It was the UN.

IPA

REVIEW