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REVIEW

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From the Editor

MIKE NAHAN

ELECTION LESSONS

The 2004 Federal Election has proven to be a godsend, not just for its result, but for the lessons being learnt.

The Coalition's surprise victory in the Senate, starting 1 July 2005, removes the main impediment to reform and increased prosperity. It provides the Howard Government with the opportunity to forge a long overdue programme of reform, not only in the economic sphere, but in the cultural arena as well.

This is both an opportunity and a challenge, not just for the Government, but for the many groups and people interested in advancing Australia. In truth, we have used the recalcitrant Senate as an excuse to shirk the hard and often unpopular task of advancing change. To aid this challenge, the IPA will be publishing a primer for reform in the New Year.

The case for reform was also boosted by the message from aspirational voters. They voted in mass for Howard because he promised most clearly to advance their goals—that is, getting wealthier, getting their children into good schools and enjoying the good life. They also correctly identified that recent improvements to their lives were in no small part due to past economic reform and that additional change was necessary to advance further. At least sections of the Labor Party have got this message; let's hope that they win the debate there.

The case for reform also received a large boost with the bursting of the Green balloon. The Greens had a great expectation of becoming the third force in Australian politics. They failed. Although their vote rose across the country, it did so by just less than 2 percentage points to 7.1 per cent, much less than the double-digit figure expected. They lost their only House



of Reps seat. They did gain two Senate seats, but the Coalition, which was the 'least green' of the major parties, picked up four additional Senate seats. Importantly, Green preferences did not help Labor win in any mainland seat.

The reasons for the failure of the Greens were three-fold.

First, they were exposed for what they are—a radical left-wing party. In order to become the third force, they had to release policies on issues other than the environment. They did so and they were exposed as extremist, in both economic and social areas. Second, the main parties had captured much of the green agenda and in so doing captured the real appeal of the Greens. Third, the Greens' stand on Tasmanian forests was correctly seen as uncompromising, with the intent of locking up the forest despite the impact on local communities and jobs.

The Green's failure in 2004 is reverberating throughout the community. It has removed their destructive force in the Senate. It will strengthen the resolve of many rural communities to resist environmental fundamentalism. And importantly, it will give the Government the resolve to reform the charities laws and prevent environmental groups from being fronts for political parties.

The election has also rendered the intellectual Left shattered and isolated. Howard's victory was more important than any other in a long line of defeats for it. Indeed, the Left has been on the losing end of every major issue over the last 15 years—economic rationalism, reconciliation, refugees, the US Alliance, the republic, public provisioning, media policy, multiculturalism, labour markets, welfare, etc. This election exposed the growing chasms in values, aspirations and cultural identity between the intellectual Left elites and the working class. The elites worked hard against Howard, portraying him as an immoral political ogre and as standing against everything that they hold dear. In contrast, the working class voted for Howard in increased numbers, expressly because he shared their values and aspirations. The brighter minds in the Labor Party now realize that they must go back to their roots in the working class and steer away from the elites. This will be a difficult task for them, as the elites have come to dominate the Party. Nonetheless, it does mean that the undue influence that they have over public values and policies should wane.

Of course this Left elite will not fade away quietly. Indeed, as outlined in 'Democracy's Trojan Horse' by John Fonte (pages 3–6, this issue), the Left has already established a new avenue for influence through the NGO movement—so-called participatory democracy—where chutzpah, organization, emotion and an articulate voice rule, rather than numbers of votes and open debate.

The urgent need to defend liberal democracy and national sovereignty is shaping up to be the next big agenda in coming years.

IPA

REVIEW

Democracy's Trojan Horse

JOHN FONTE

JUST before the new century began, Marc Plattner, co-editor of the influential *Journal of Democracy*, wrote of the brave new globalized world coming into existence:

A borderless world is unlikely to be a democratic one. For while the idea of 'world citizenship' may sound appealing in theory, it is very hard to imagine it working successfully in practice. Indeed, some aspects of globalization 'point to a long range danger to democracy.'

While Plattner is uneasy about these developments, other observers, such as Strobe Talbott, largely discount the risks. An entire industry of transnational agencies and non-governmental organizations is pushing forward changes designed either to deny or override the national sovereignty of democratic states against surprisingly muted or inchoate opposition. Taken together, these changes amount to a serious political and intellectual challenge to democratic sovereignty vested in the liberal democratic nation-state.

It is a distinctly new challenge. Until now, democrats have faced two major opponents: pre-democrats and anti-democrats. The pre-democrats, adherents of some form of *ancien régime* (of throne, altar, tribe or clan), have been mostly vanquished over the past several hundred years. Since 1917, three anti-democratic ideologies have presented an alternative vision to liberal democracy: Nazism/fascism, communism, and today militant Islam or Islamism.

The radical Islamist threat is both deadly and serious, and it could last for a considerable period of time. Islamists might gain powerful weapons and thereby cause much death and destruction. Nevertheless, it is in the highest degree unlikely that they will in the end conquer liberal democracy.

Yet, the twenty-first century could well turn out to be, not the democratic century, but the 'post-democratic' century—the century in which liberal democracy as we know it is slowly, almost imperceptibly, replaced by a new form of global governance.

The ideology and institutions already exist in embryonic form and are developing rapidly. The philosophical basis for global governance begins with the premise that all individuals on the planet possess human rights. International law is the paramount authority that determines those rights, while international agreements establish and expand new rights and norms. International institutions (for example, the UN, the International Criminal Court and the World Bank) monitor, adjudicate, negotiate, cajole and administer the international agreements and laws in varying degrees. International non-governmental organizations (NGOs) claim to represent 'global civil society', or the 'peoples' of the planet. And the NGOs work with international institutions and participate in international conferences helping develop the new norms for global governance. Moreover, global governance is not really 'international', but 'transnational' in the sense that it is not concerned strictly with relations between nations, but with political arrangements above and beyond nation-states. Indeed, it could also be described as 'post-international.'

The global governance regime is promoted and run by complementary and interlocking networks of transnational (mostly Western) elites, including international lawyers, international judges, NGO activists, UN and other international organization officials, global corporate leaders and some sympathetic officials and bureaucrats from nation-states. These transnational elites are, for the most

part, ideologically compatible. They could be described as 'transnational progressives' (many are part of the generation of 1968) supporting what they perceive as 'progressive' causes across national boundaries (that is, supporting the 'other', the oppressed, minorities and opposing the death penalty, unilateral military action by the United States, and so on). Denationalized corporate elites who are non-ideological, but seek economic advantage, often have a symbiotic relationship with the transnational progressives. Global governance is not to be confused with world government. Nation-states (both democratic and undemocratic) continue to exist, but their authority is increasingly circumscribed by the growing strength of the global institutions, laws, rules, networks and ideological norms noted above.

Unlike democratic sovereignty, global governance can provide no straightforward answers to the most important questions of political science (who governs? where does authority reside? how are rulers chosen?) In a democracy, authority resides in a self-constituted people ('government by consent of the governed'). These self-governing people choose their rulers through elections and can replace them if they are not responsive to the people. The people limit the power of rulers through a constitution and basic laws. Bad laws can be changed by elected national legislatures.

In theory, human rights and international law are the moral basis for the global governance regime, but both of these concepts are fluid, porous, and constantly 'evolving'. They are, at any given moment, what transnational elites tell us they are. (For example, at the present time, international agreements maintain that children have an 'absolute human right' to conduct any

correspondence with anyone in the world without interference from their parents, which, strictly interpreted, would gain children the right to communicate with paedophiles on the Internet.) NGOs participate in the writing of global treaties alongside democratic and non-democratic governments, but they are essentially pressure groups, elected by no-one and responsible only to themselves. Nor are the other elites, the international lawyers, judges, activists and officials who participate in the global governance system responsible or accountable to any self-governing 'people'. How can these rulers be replaced? How can 'the governed' repeal bad laws and regulations that their 'governors' have imposed upon them? Global governance provides no democratic answers to these questions.

Global governance is implicitly a grand ideological project (and a utopian and coercive one, with universal aspirations). It is post-democratic in the sense that it originates from but transcends democracy just as the 'postmodern' originates from but transcends modernity. Its success would mean that liberal democracy might very well be replaced with a new form of regime.

CHALLENGING DEMOCRACY

What does the challenge of post-democracy mean philosophically for the advance of genuine democracy in the world, and practically for American global strategy? I suggest that ultimately the greatest challenge to liberal democracy in the twenty-first century will come from within. What I have described as 'post-democracy' is, unfortunately, a serious alternative regime to the liberal democratic nation-state and the principle of democratic sovereignty. Thus, history may not end with the ideological triumph of liberal democracy.

As noted, this alternative regime would consist of networks of overlapping transnational institutions, organizations, agreements, treaties, laws, regulations, and rules; run by transnational elites and informed by a

transnational progressive ideology. This ideology is an amorphous and eclectic mix of soft academic Marxism or Gramscian thinking, social democracy (minus its George Orwell–Tony Blair 'armed democracy' wing), multiculturalism, radical feminism, environmentalism, or whatever else constitutes the latest in progressive thought at any particular moment. That said, the public face of transnational progressivism is slick and PR-savvy. Its sophisticated advocates (for example, Human Rights Watch's Kenneth Roth or Amnesty International USA's William F. Schulz) work with corporate heads, foundation officials, American, EU and UN bureaucrats who provide the funding, and with whom they are locked in a symbiotic relationship.

Global governance is implicitly a grand ideological project (and a utopian and coercive one, with universal aspirations)

If this sounds incoherent, a good part of the strength of post-democracy lies in its incoherence. By disguising what and how political decisions are made, it renders them unstoppable and perhaps irreversible. As noted earlier, global governance provides no serious democratic means for the 'governed' to repeal decisions (that they may find repellent), but that their new 'governors' have, nevertheless, imposed upon them without their consent.

Another strength is that post-democracy has support from elites of the Right as well as the Left. It should not surprise us that the transnational project has been rhetorically (and sometimes financially) embraced by many multinational American-based corporations. It is perhaps understandable that transnational corporations should seek to emphasize that they are

global rather than national entities. Yet it was also rather unseemly for the corporate counsel of Motorola to denounce as 'nationalistic' Ralph Nader's suggestion that American-based corporations begin their stockholders' meeting with 'The Pledge of Allegiance' to the 'country that bred them' and 'defended them'.

Likewise, it was unseemly, when the late Carl Gerstacker, Chairman and CEO of Dow, wrote several decades ago that he dreamed of establishing the world headquarters of this American chemical giant on the 'truly neutral ground' of an island 'beholden to no nation or society'. Of course, Dow, Motorola and a host of other corporations, whose executives have made foolish comments about their company's relationship to America are, indeed, 'beholden' to the American nation. Without American sovereignty, mores, culture, laws and military power, they would be neither prosperous nor protected. It should not surprise us that corporations that accept the progressive agenda at home (racial/gender preferences, multiculturalism, etc.) are willing partners of NGOs who promote this agenda abroad.

If present patterns of discourse continue, in the end, the transnational regime would claim to be the ultimate fulfilment of democracy. Democracy, it would be explained, has simply 'evolved', like 'human rights' and the 'new international law'. In some respects the European Union is the model of post-democratic governance. If there is one thing that both friends and foes of the European Union agree upon, it is that the EU has a 'democracy deficit'. Although power is, technically, supposed to reside with the member nation-states through the Council of the EU (that is composed of representatives from the nation-states) and the European Parliament (elected by citizens in the nation-states), in actuality a great deal of the authority is wielded by the unelected bureaucracy—the European Commission (EC) in Brussels. The EC has a monopoly on initiating legislation—▶

in essence, an advance veto. In contrast, the Council and Parliament—theoretically responsible to voters—can only withhold approval of policies already formulated by the Commission, something they rarely do in practice.

Many Continental European elites are already committed to slowly and steadily building some form of transnational post-democratic regime, that would—as its top priority—limit and constrict the democratic sovereignty of the United States. They would also like to limit the sovereignty of other democracies, particularly those allies of the United States that are outlier democratic nation-states, including Britain, Israel and Australia, who have, in different ways, stood aloof from the European continent's political style and modes of thought.

WHAT IS TO BE DONE?

But democracy can defeat post-democracy. The first step is the recognition and intellectual conceptualization of the post-democratic threat. To get a firm grip on the post-democratic problem we must think ideologically—even more ideologically than the neo-conservatives have to date. Ironically, the current neo-conservative critique is insufficiently ideological. It offers an incomplete dialectic that abruptly stops after democracy triumphs. Following Hegel (and Kojève and Fukuyama) the critique roughly posits that the dialectic (and thus serious ideological conflict) is completed with the victory of modern democracy.

Ironically, Mao was more perceptive in recognizing that, even after the revolution, the dialectic (that is, history, ideology) continues and that, therefore, 'there is always a right and always a left' and 'things always divide one into two'. Today, democracy begets post-democracy. Thus, we must say to our neo-conservative friends (paraphrasing the Trotsky-Burnham exchange of the late 1930s), 'you may not be interested in post-democracy, but post-democracy is interested in you'.

Fortunately, for practical policymakers the conceptual tools needed to

grasp the serious nature of the post-democratic threat to American principles and American interests are available. The intellectual spade-work identifying and conceptualizing this challenge has already been accomplished by specialists in international law, including John Bolton, Jeremy Rabkin, David Rivkin, Lee Casey, Robert Bork, Jack Goldsmith, John Yoo, Stephen Krasner, Curtis Bradley, Jed Rubenfeld, and Kenneth Anderson. Policymakers need to read, absorb, and build upon their work.

The United States should be prepared to champion not simply generalized notions of building democratic institutions and promoting 'human

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rights' and 'democratic values' that are susceptible to post-democratic manipulation, but the principle of democratic sovereignty within the institution of the liberal democratic nation-state. Hence, the concept of democratic sovereignty, as a core American value, should be officially incorporated into the National Security Strategy of the United States and promoted by the State Department, the National Security Council and the other institutions of the President's foreign policy apparatus.

Post-democratic challenges to American democratic sovereignty should be clearly identified and resisted. NGOs that consistently act as if they are strategic opponents of the democratic sovereignty of the American nation should be treated as such.

They should not be recognized or supported at international conferences, not permitted to roam battlefields, and not given special briefings or access to US government officials.

In particular, these NGOs should not be given the legitimacy and credibility that comes from a certain status as quasi-allies of American democracy in human rights arguments in non-democratic and developing countries. Most importantly, the post-democratic NGOs and their allies in the self-designated 'international human rights movement' actually harm the cause of genuine human rights. They claim to speak for 'humanity', as other utopian elites once claimed to speak for the 'workers' or the 'people'. Yet, like previous utopian elites, they speak for a particular ideological movement. They purport to support the 'rule of law'. Yet, they denigrate the 'rule of law' as it is actually practised in functioning liberal democracies, while constantly re-inventing new utopian versions of 'law'.

As the United States expands its initiatives to foster democracy abroad, these post-democratic NGOs and 'human rights activists' should not be given federal funds and grants to promote what they will surely claim is 'democracy building', but is, in reality, their own narrow ideological agenda. This issue has direct practical consequences since President Bush has called for a major effort and increased funds to promote democracy and democratic institutions. It is crucial that this initiative and these funds are not co-opted and captured by post-democrats.

For the most part, European support for American policies comes from countries acting as nation-states (for example, Britain, Poland, Italy, Spain, Portugal and Denmark) in opposition to the policy of the European Union. If a 'common European foreign and defence policy' had existed, it would not have supported US action in Iraq. Prudence and principle dictate that US policy tilt toward the democratic nation-states of Europe and away from any further encouragement of the po-

litical (as opposed to the economic) integration of the European Union.

At the same time, the principle of democratic sovereignty means that the United States should not gratuitously oppose the domestic policy of democratic nation-states. For example, the recently announced French secular education policies (banning head scarves and religious symbols in schools) may not be consistent with our notions of religious pluralism, but it is consistent with French democratic and national traditions and it is being implemented within the context of the democratic nation-state. Our State Department should have remained silent on this issue, just as the French government should mind its own business on the US death penalty.

Likewise, friends of democracy on both the Right and Left should be cheered by Sweden's 'No' vote on the Euro, which concerned democratic politics much more than economics. The 'No' vote appears to have been a revolt of the Swedish people against their elites in order to protect their democratic right to maintain the Swedish social welfare state (*Folkhemmet*). We may not favour their policy preferences, but the Swedish vote constituted a victory for 'government by consent of the governed.'

The National Security Strategy rightly promotes free trade as an important foreign policy tool of the United States. It is important that both the World Trade Organization (WTO) and the North American Free Trade Association (NAFTA) remain instruments to liberalize trade among nations and not expand into areas properly left to democratic decision-making. As the American Enterprise Institute's Claude Barfield has warned, the WTO needs to ensure that its judicial bodies do not indulge in 'legislating new rights and obligations through judicial interpretation' that weaken democratic sovereignty and has recommended measures to 'rein in' the WTO's judges.

AFFIRMING DEMOCRACY

In the end, an affirmation of democratic sovereignty should stand on

principle and morality, as well as interests. Democratic sovereignty is consistent with the morality and universal values of the American Founding. It is consistent with the idea of 'government by consent of the governed' in which that government is limited by a constitution, which is the ultimate source of democratic legitimacy. Surrendering, or 'ceding', or 'pooling' democratic sovereignty beyond the authority of the Constitution and the American people would be 'government without the consent of the people' and would be inconsistent with our democratic morality.

There is nothing particularly 'universal' about the agenda of much of

Democratic procedures within democratic nation-states are a more effective, more comprehensive, and above all, a more just way of deciding what are universal human values

what passes for the 'international community'. On the contrary, their agenda (on group rights, new definitions of 'human rights', limiting democratic sovereignty, abolishing the death penalty, *et al.*) is, for the most part, simply the views of 'progressive' transnational elites. These are very rarely the views of democratic majorities in democratic nations. Opinion polls suggest that the elites would have difficulty winning majority support for their position on the death penalty in, say, Britain, Australia, Italy, France or Sweden.

This is not to imply that raw majoritarianism within a nation-state is the ultimate moral position. But it is to suggest that the interpretation of what constitutes universal values should not be decided solely by international elites. It is also to suggest that

the definition of 'human rights' is too important to be left to human rights activists, just as the interpretation of 'international law' is too important to be left to international lawyers. Finally, democratic procedures within democratic nation-states are a more effective, more comprehensive, and above all, a more just way of deciding what are universal human values.

The next great ideological struggle for democracy will be against post-democracy. But democrats must recognize that they will be engaged in a two-front war. For even as they struggle violently against the anti-democrats of militant Islam, they will, at the same time, also have to fight peacefully, but fight nonetheless (through intellectual arguments and politics at home and abroad) against the post-democrats of the West. This situation of a 'two-front ideological conflict' is similar to the Cold War, in which serious anti-communists not only fought against the communists but, at the same time, had to engage in an ideological struggle with powerful anti-anti-communist elements among Western progressives, who considered their main adversaries to be Western anti-communist democrats, not the communists themselves, whom the progressive Left chose mostly to ignore.

For better or worse, the conflict between democracy and post-democracy will, in large part, be decided by Americans. In Clausewitzian terms, American opinion (elite and popular) is the 'centre of gravity', the crucial point on which all hinges in the battle between democrats and post-democrats. American foreign policy should stand forthrightly for the principle of democratic sovereignty within the liberal democratic nation-state. As Lincoln knew, democracy's destiny and America's destiny are intimately intertwined. And, we have been there before.

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References for this piece are available on request.*

I P A

REVIEW

NGOs Undermining Democracy

MIKE NAHAN AND DON D'CRUZ

OVER the last decade or more, official aid agencies have increasingly been plying non-government organizations (NGOs) with money and influence in the belief that they would provide a route around corruption and towards democracy.

Arguably, nowhere has this happened more than in Indonesia.

The crisis recently confronting Newmont Mining, where five of its senior executives (one American, one Australian and three Indonesians) were imprisoned in Indonesia, illustrates the folly of this belief.

Since the early 1990s, Indonesia has been a major target of a global anti-mining campaign. Although Indonesia is not a major mining nation, it is very prospective. Canada's Fraser Institute rates Indonesia as sixth in the world for geologic potential. In the early to mid-1990s, it experienced a large inflow of investment from global mining firms. With the global miners came their opponents in the NGO sector.

Newmont was an early entrant into the Indonesian mining industry, starting with the development of its PT Newmont Minahasa Raya (NMR) goldmine, which began production at Buyat Bay in the province of North Sulawesi in 1996. At its height, NMR accounted for 8 per cent of Newmont Mining's global output. It has also been a major contributor to the Indonesian economy and North Sulawesi, providing direct and indirect benefits of around US\$544 million.

Like virtually all the foreign-owned mining ventures in Indonesia, NMR was, from its inception, subjected to a

campaign by 'local' NGOs. These included the Indonesian Center for Environmental Law (ICEL), the Indonesian Mining Advocacy Network (JATAM), the Institute for Policy Research and Advocacy (ELSAM), KELOLA Foundation and the Indonesian Forum for the Environment (WAHLI), aka Friends of the Earth Indonesia—just to name a few.

Since the mine opened, NGOs have alleged that NMR was polluting Buyat Bay with mercury, arsenic, lead, copper, cadmium and other toxic compounds from its tailings.

Newmont has consistently and emphatically denied the charges on the basis of results from its own on-going monitoring, and those of independent groups such as the Commonwealth Scientific and Industrial Research Organisation (CSIRO) and results of the Indonesian Government's own testing. All these sources repeatedly failed to find any problems with pollution—mercury, arsenic or otherwise—in the Bay.

The NGO campaign against NMR increased in intensity in 2004 as the mine was being wound down. The NGOs issued a new set of even more extreme claims, including that 30 villagers had died from Minamata disease, a severe form of mercury poisoning which could only be acquired by direct ingestion of mercury.

After these latest allegations surfaced, an Indonesian legal aid group (The Agency for Health Law) purporting to represent the alleged victims, filed a lawsuit seeking criminal charges and a US\$543 million lawsuit for damages against Newmont and its executives.

As is characteristic of NGO campaigns, the campaign against NMR was taken to the global media. In September 2004, *The New York Times* ran a feature story on its front page which presented the NGO case. In so doing, it ignored data that supported Newmont's position, and gave an incomplete and biased assessment of the situation.

The New York Times only referred to 'experts' that were in fact provided by the NGOs. For example, the paper quoted the opinion of 'a doctor' who claimed that villagers were suffering from mercury poisoning. These claims were subsequently shown to be untrue. In addition, *The New York Times* gave much weight to the opinion of 'a hydrogeologist, Robert E. Moran, an adviser to mining companies and environmental groups'. In short, they presented Moran as an independent, neutral authority. In truth, Moran is a consultant to Oxfam and other environmental NGOs. He is also a Board Member of the anti-mining group Global Response. As disclosed on mineweb.net—a leading mining industry newsletter—'Moran is better known ... as the author of anti-mining studies, such as the Tambogrande project'.

Shortly after *The New York Times* ran the story in September, Indonesia's National Police arrested six of NMR's most senior executives (one was released due to health risks) on charges that NMR and its executives had knowingly polluted the bay and damaged the livelihood and the health of the local community. According to *The Jakarta Post*, this came about after 'dozens of Buyat people, encouraged by

NGOs, filed a complaint with the National Police against NMR in August over alleged contamination that, it was claimed, had affected their health’.

The Indonesian National Police also claimed to have conducted tests which found high levels of mercury in Buyat Bay. When contacted by *The Christian Science Monitor*, the police were, however, not forthcoming about their methodology or their results.

The main English-language newspaper in Indonesia, *The Jakarta Post*, in a carefully crafted editorial, described the action by the police in respect of NMR as bordering ‘on the bizarre’.

It was not alone in this view. The *Asia Times* noted: ‘There have been suggestions from industry sources that the pollution charges are being drummed up by NGOs and the authorities in a hidden agenda against Newmont, to coerce the company into paying massive compensation before it leaves its Sulawesi mine’.

The police and the NGOs’ case received a major setback in October when an investigation of the area by the World Health Organization and the Minamata Institute of Japan failed to find any signs of mercury poisoning or related symptoms. Following this, police received further bad news when the state prosecutors rejected the police dossier of evidence against Newmont and asked for further substantiation.

More significantly, the Indonesian Government released an interim report prepared by the Government Integrated Team—composed of bureaucrats, scientists and NGOs, set up to examine the claims—which found that ‘Buyat Bay was not polluted with mercury’, and ‘was not polluted with arsenic’. It also found that the ‘fish from Buyat Bay are fit for human consumption’.

The release of this interim report by the outgoing Environment Minister Nabel Makarim was criticized by the anti-mining NGOs on the Integrated Team on the grounds that they had not had a chance to put their ‘spin’

on the results. But as the Minister told *The Jakarta Post*: ‘What I have released to the media is the true result of the field research. Why should we hide and keep the information? Based on the comparison between the laboratory results and acceptable levels (of heavy metals in seawater) there is no pollution in the bay’. ‘The interpretation may be different but the data cannot be changed. So let them release whatever interpretation they have,’ he added.

The Minister’s actions were in response to the strategy of the NGOs to pre-empt findings and distort results.

**The reality of the
Newmont experience
is that NGOs
sometimes facilitate
corruption, create risk,
destroy jobs and
accentuate conflict**

The NGOs ran true to form and leaked a copy of the final ‘draft’ of the Government Integrated Team Report to their supporters in *The New York Times*. This draft, or at least the sections of it reported by *The New York Times*, echoed the opinions of the anti-mining NGOs. The NGOs quickly declared it ‘the most comprehensive study ever carried out’ and *The New York Times* gave it its stamp of approval.

The Report has been presented to the new Environment Minister, and therefore looks destined for yet another committee where NGOs will undoubtedly be able to generate a few more negative headlines about Newmont.

Shortly after the inauguration of the new Indonesian President Susilo Bambang Yudhoyono, the Newmont executives were released from custody, although the police investigation is continuing.

The action against NMR has undermined the already low level of investor confidence in Indonesia generally and specifically in its mining sector. Investment in the mining industry has declined over the last seven years from AUD\$3.6 billion to a paltry AUD\$244 million. The problems confronting Newmont will contribute to this decline.

In Indonesia, as in other developing countries, local anti-mining NGOs are partners with Western activists. While they claim to represent the local community, they are in fact funded almost entirely from abroad. For activists in the developing countries, these campaigns are as much about earning a living as they are about saving the environment. As in the developed world, protesting there has become a profession. What gives NGOs’ agendas away is the fact that they only campaign against foreign joint ventures. They leave local mines alone, even those that extensively use mercury and operate with poor standards. Moreover, when foreign investors sell out to locals, the NGO campaigns invariably stop.

Importantly, for NGOs such as ICEL, WAHLI and JATAM, a large but undisclosed portion of their funding comes ultimately from Western sources. For example, WAHLI, a leading Indonesian anti-mining NGO which was involved in the campaign against NMR, receives funding from CARE, OXFAM, Netherlands Organization for International Development Cooperation (NOVIB), AusAID, Belgium’s National Center for Development Cooperation (NCOS), and Canadian Development Agency (CIDA). As James Sheehan notes in his book, *The Global Greens*, WAHLI also shared in a US\$14.4 million contract from the World Bank’s Global Environment Facility with WWF Indonesia.

JATAM received funding of US\$75,000 from USAID’s Biodiversity Support. This was, however, not renewed because, in the words of a USAID spokesperson, ‘Doubts were raised about JATAM’s ability to give

impartial assistance to communities and we determined that this was harmful to US goals’.

In addition, WAHLI previously received funds from USAID until it had a well-publicized falling out (that is, publicized by WAHLI) over the invasion of Iraq. WAHLI reportedly refused to take money from the United States and other countries, such as Australia and Great Britain, whom they referred to as ‘belligerents’. There is no way of determining whether they did refuse, or whether it was mere theatrics.

Western funding of NGOs is usually rationalized on the basis that NGOs promote the rule of law, find solutions and mediate conflict. The reality of the Newmont experience is that NGOs sometimes facilitate corruption, create risk, destroy jobs and accentuate conflict. The *Asia Times* noted that both WAHLI and JATAM ‘follow the gospel as laid down by anti-mining foreign NGOs to the point that they pursue global anti-mining campaigns and spend their time attacking foreign companies rather than working to protect and preserve the environment’.

Buyat Bay, where NMR is located, is typical of many Indonesian communities. It is fractured on religious and economic grounds, is experiencing a decline in public infrastructure and private investment and is suffering from a decline in the rule of law and political leadership. On one side of the Bay, people are relatively affluent and Christian. Across the bay, in the village of Buyat Beach, the people are mainly Muslim and notably poorer than their Christian neighbours.

The mine has exacerbated these differences. It is located nearer the Christian villages and has provided jobs and economic activity, as well as schools, clinics and roads. Not surprisingly, the people living in these villages are highly supportive of the mine. The people in Buyat Beach have not benefited as much from the mine and are disgruntled.

On top of this, there is the general political and economic chaos that

has followed the fall of the Suharto: the rise of democracy, decentralization of political structures and economic decline.

On paper, therefore, the Buyat Bay area is a prime example of a community in need of the soothing assistance of civil society. Instead of attempting to reconcile the differences within the community and provide political leadership, however, the NGOs have driven a wedge into the community. Instead of being mediators, they have augmented tensions. The NGOs have concentrated on mobilizing the

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poorer Muslim villages. They have done this with highly emotional and false claims of pollution and poisoning. They have offered the lure of huge payments from lawsuits for those who participate in the anti-mining campaign.

Instead of assisting the rule of law, the NGOs have effectively undermined the decision-making process and attacked the reputation of politicians, the police and public servants who did their job honestly and according to the evidence. Instead of working against corruption, they have actively facilitated it by providing police with the cover of false claims.

When US Ambassador Ralph Boyce raised the NMR case with the outgoing Indonesian President Megawati Sukarnoputri, his actions were attacked by US activists. ‘The US Embassy’s actions are a dangerous example of the Bush administration’s

misguided foreign policy’, said Stephen Mills, Director of the Sierra Club’s International Program.

Mills went on to argue that ‘the transgressions of American companies operating abroad reflect poorly on our country and damage our national security’. But Mills’ clumsy attempt to invoke national security does inadvertently expose a major problem which has been tolerated for far too long. Broadly speaking, what damages the national security of countries such as Australia, but also America for that matter, are ‘local’ NGOs funded by Western aid dollars, which the *Asia Times* notes ‘are the driving force behind much of the unrest that has caused investors to head for the door.’ They are trying to sabotage an industry that is generating wealth and opportunity in the world’s most populous Muslim country, and stirring up hatred towards Westerners in a country which unfortunately has more than its fair share of poverty and Islamic fanatics.

The misuse of aid money by NGOs, as described above, is well known in Indonesia and is creating resentment even amongst groups supportive of a more open and pluralistic civil society. Indeed, this was in part behind the decision of the Megawati Government last year not to renew visas for a number of representatives of international NGOs in Indonesia.

It is in our own interests, as well as those of our neighbours, to stop it. Indeed, AusAid needs to review its entire NGO programme. While some NGOs may be doing good, many are undermining and actually destabilizing our neighbours. Others are just wasting taxpayers’ money.

Mike Nahan is Executive Director, and Don D’Cruz is a Fellow, of the Institute of Public Affairs.

NOTE

This article, with complete footnotes, is now freely accessible on the IPA Website, www.ipa.org.au

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Vegetation Management in Queensland

A Case of Constitutional Vandalism

SURI RATNAPALA

AUSTRALIA is called the Lucky Country, but luck has played only a small part in the country's success. The conversion of resources into wealth requires capital, technology, enterprise and hard work. People do not invest in wealth-creating activity when the risks are too high and the returns too low. Risks increase when the law is unpredictable and property rights are insecure. The success of Australia's primary industry sector owes much to the relative stability of property rights and contractual certainty secured by what the great Scottish philosopher David Hume called the 'three fundamental laws concerning the stability of possessions, translation by consent and the performance of promises'. These laws are maintained by the strength of the constitution and the eternal vigilance of the people. Environmental regulation driven by Green politics threatens the rule of law and property rights. The flawed processes by which environmental policies are determined and enforced not only subvert constitutional principles but also admit bad science.

This article examines the nature of the Green threat to the rule of law and hence property rights. It is impossible to survey within a brief exposition the complex and ever-growing environmental regulatory regime in Australia. Hence, I will focus my attention on one piece of legislation that typifies all that is wrong and dangerous about recent trends in environmental protection law in this country. The legislation

I examine is Queensland's *Vegetation Management Act 1999* (VMA) which applies to all freehold and non-freehold lands in Queensland. This law reflects a regulatory model that may become standard in Australia.

UNDEMOCRATIC LAW-MAKING

The VMA establishes an utterly undemocratic form of law-making affecting property rights in the State. In fact the Act does not make the law but leaves legislative power in the hands of the Minister and executive officers to be exercised outside the parliamentary process. The Act requires the minister to prepare and the Governor in Council to Gazette a vegetation management policy for the State. This is not policy in the ordinary sense, but is a legislative instrument that controls the other powers under the Act, in particular the preparation of regional vegetation management codes (s.11(2)). Despite its binding effect, it is deemed not to be subordinate legislation (s.10(7)). Similarly, declarations (and interim declarations) of holdings as areas of 'high nature conservation value' or areas 'vulnerable to land degradation' and the codes governing vegetation clearing in those areas are deemed not to be subordinate legislation (ss.17(6) and 18(4)). Since subordinate legislation requires parliamentary approval, the sole purpose of these exclusions is to remove these instruments from parliamentary scrutiny and hence public debate. (Under s. 49 of the *Statutory Instruments Act 1992*,

subordinate legislation must be tabled in parliament, and under s. 50 they may be disallowed.) Given their legislative nature, these instruments are not generally subject to judicial review. Instead of the usual legislative practice, the Act establishes a consultative process including review by the Minister's own advisory committee. Although landowners and the public may present their views, the law ultimately is what the Minister wills. This is a classic instance of the process open to capture by those who engineer it, in this instance the Green lobby. The process is structurally biased and insulated from the glare of public debate. There is no appeal from this law to parliament or to the courts.

COST OF COMPLIANCE

The effects of these instruments are far reaching and costly to property owners. Freehold and leasehold occupiers of land that become the subject of area declarations cannot manage or use their properties as they judge, but must do so in conformity with the 'declared area code'. Owners require the authority of clearing permits even to maintain the productivity of their lands. At the very least, the declaration increases the landowner's transaction costs in managing the property. It may reduce the productivity of the land resulting in loss of income. It is more than likely that a declaration will diminish the market value of the property. I will return to the important question of compensation presently, but first the compliance cost deserves a closer look.

A property owner will be required to read and construe the legal effect of the 'declared area code'. This may be simple enough for the most part, but as owners have discovered, often it is not. Tree clearance permits may give rise to similar problems. More serious is the problem of impracticality and even impossibility of compliance. A permit that allows some species to be cleared but not others may be a virtual prohibition if selective clearance is not practical or possible given the nature of the forest. It is a basic principle of all civilized legal systems and a rule of common law that the law must not ask the impossible. (*Lex non cogit ad impossibilia.*) An enactment that requires the impossible is not a law but a directly punitive act.

NEGATION OF PROCEDURAL JUSTICE

The enforcement provisions of the VMA violate the most fundamental requirements of criminal justice and should concern every civil libertarian. The intrusive investigatory powers, the coercive extraction of evidence, the conferment of judicial powers on executive officers, the reversal of the burden of proof, the various presumptions favouring prosecutors and the use of criminal history combine to create a regime more reminiscent of a police state than of a liberal democracy. A detailed analysis is not possible, hence I will discuss the most pernicious provisions.

The guilt of a person accused of a vegetation clearing offence under the VMA is determined not by a court but by an official. (The judicial trials mandated by Division 3 have no application to vegetation clearing offences under the VMA). If an authorized officer issues a compliance notice, a failure to comply without a reasonable excuse results in an automatic penalty. (Maximum of 1665 penalty units or \$ 116,550—s.55.) The innocuous term 'compliance notice' masks what is actually a straightforward conviction and sentence without trial. The Act allows a limited appeal to a magistrate within 20 days against the decision to issue a

compliance notice, but not on the existence of a reasonable excuse or on the penalty (s.62). Contrast this with infringement notices under other laws. A speeding ticket or parking ticket is not a judgment of my guilt. If I ignore it, the police must charge me and have me convicted by court after a fair trial. The VMA installs the kind of process that the High Court in *Brandy's Case* (183 CLR 245) condemned for offending the separation of powers in the Australian Constitution. The fact that State constitutions have no explicit separation of powers does not make this scheme any less reprehensible.

Division 2 of the Act, which deals with evidence, effects a total reversal of the burden of proof in trials concerning tree clearance. Section 65 makes

The VMA establishes an utterly undemocratic form of law-making affecting property rights in the State

it unnecessary to prove that official acts are done within the authority of the Act. A certificate issued under section 66B is deemed sufficient evidence of the accuracy of remotely sensed images, the official conclusions drawn from them and even the very fact that unlawful clearing has taken place. In short, the certificate makes it unnecessary for the prosecution to prove its case but necessary for the landowner to disprove it. This is a negation of due process in criminal and civil matters that is fundamental to civil liberty. Not content with this arsenal of prosecutorial weapons, the perpetrators of the VMA have even removed from landowners the defence of mistake of fact (s. 67B). These provisions cumulatively deny landowners the basic safeguards of procedural justice available even to persons accused of the most heinous crimes.

TAKING PROPERTY WITHOUT COMPENSATION

The VMA and other related legislation fail to provide compensation for the loss of property value that results from the imposition of vegetation management codes. Under the VMA, the State is not intervening to prevent private or public nuisances, in which event no compensation is owed. On the contrary, property values diminish because the State is limiting its use and enjoyment to serve what it considers to be the public interest in conservation. The State thus converts private property to public use and hence should compensate the owner. The duty to compensate owners for property taken for public purposes is a principle of justice. The cost of the public benefit must be met by the public and not by individual owners whose property is taken.

The denial of compensation also eliminates the discipline that the price mechanism brings to decision making. A government that need not compensate owners has less reason to 'get it right' than a government that must. The uncoupling of power and financial responsibility allows governments to seek short-term political dividends. It promotes politics and ideology over facts and science.

CONCLUSION

The VMA was enacted to combat environmental vandalism, but its provisions have vandalized Australia's cherished constitutional principles. The principles that have been sacrificed are not merely principles of justice but also of good governance. Parliamentary scrutiny and public discussion, procedural fairness, evidentiary precautions, and compensation for government takings militate against arbitrary and erratic government. The public interest calls for an urgent review and exposure of this dangerous regulatory trend.

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I P A

Time to Redefine Environmentalism

JENNIFER MAROHASY

Change is real. Our purposes and our values are not things that have always existed, and will always exist, somewhere beyond space and time. They have come into existence as a consequence of our own activities, and those of our ancestors. They have been and are being evolved.

— Michael Ghiselin 1995

INTRODUCTION

There has been much self-congratulation of late amongst those on the Right of Australian politics. The Australian Greens failed to capitalize on the implosion of the Democrats, and the Coalition will soon hold power in the Senate. But the Australian Greens aren't going to go away. Their House of Representatives' primary vote has slowly climbed from one to seven per cent since 1990 and environmentalism is only likely to grow as the religion of choice for urban 'atheists'. The Coalition may not always be successful in its strategy of seeking to alternately placate and outsmart the Australian Greens. A better approach may be to redefine environmentalism in accordance with modern theories of evolutionary biology and in accordance with policies that will deliver tangible environmental benefits given the current pressures on the global environment.

THE IMPORTANCE OF HAVING YOUR OWN VISION

It is a fact of life that if you don't have your own plan, your own vision, then you will likely be recruited into implementing someone else's plan. Over recent decades, Australian gov-

ernments have been recruited into implementing the vision of environmental activists—essentially the visions of organizations such as the World Wide Fund for Nature (WWF) and the Australian Conservation Foundation. These organizations don't undertake much tree planting and don't grow any organic food. They exist to recruit others to implement their plans, their vision of what is best for the environment. This includes a future free of genetically modified foods, where agriculture is heavily regulated and tree clearing banned.

In its report, 'Taming the Panda: The Relationship between WWF Australia and the Howard Government', The Australia Institute shows that, over the last eleven years, funding to WWF has increased by more than 500 per cent and is now around \$11 million annually. A significant proportion of WWF Australia's growth over the past 11 years can be attributed to revenues from Federal Government sources, rising from around \$740,000 in 1995–96 to a high of almost \$3.7 million in 2001–02. In total, WWF Australia has received over \$15 million in government grants in the period 1996–2003, with almost \$13.5 million of this having been awarded between 1998–99 and 2002–03!

At the same time that these organizations receive government funding to promote their vision for the environment, they work very closely with the Australian Greens. For example, in the recent federal election, at least one WWF employee stood for election as an Australian Greens candidate.

COMPETING CONCEPTS OF NATURE

While the Australian Greens give the impression that their policies are based on science and 'natural concepts' of environment, they are, to some extent, a re-invention of the tired old Marxist, totalitarian model. Furthermore, and somewhat paradoxically, their ideological foundation appears to be largely a re-mapping of traditional Judeo-Christian beliefs and myths, including the concept of an original Eden. Yet, unlike early conservationists, who saw man as having an important management role tending and looking after the landscape—Noah built the ark to save the animals from The Flood—the Greens generally advocate a 'hands off, leave it to nature' approach. Within this framework, Man is in a state of sin wherever he attempts to modify or control the landscape, and technology is inherently bad.

The views of the Australian Greens accord somewhat with what was the accepted paradigm preceding the writings of Charles Darwin. Indeed, Darwin began *The Origin of Species by Means of Natural Selection* with the comment that 'Until recently the great majority of naturalists believed that species were immutable productions, and had been separately created'. Darwin then went on to present a powerful case for the concept of evolution through natural selection.

It is now widely accepted that there was no original Eden—no original 'pristine state'. Competition, adaptation and natural selection, sometimes against a backdrop of cata-

strophic climate change, have driven the evolution of life on earth. In his paper *Perspective: Darwin, progress and economic principles*, Biologist Michael Ghiselin makes the point that evolution is a form of progress with progress defined as the accumulation of useful innovations. He also makes the point that progress has no connotations of good or evil—what is ‘good, bad, or indifferent is not progress itself, but its consequences’.

The Federal Government really has a stark choice. Public policy on environmental issues can be based on the best science or on the belief systems of environmental fundamentalists.

FEEDING THE WORLD AND REDUCING OUR ECOLOGICAL FOOTPRINT

In 1968, when the world’s population was about 3 billion, renowned environmentalist Paul Ehrlich wrote, ‘The battle to feed all of humanity is over. In the 1970s the world will undergo famines—hundreds of millions of people are going to starve to death.’ Ehrlich’s predictions did not come true. Instead, as a consequence of modern high-yielding agriculture—including the use of fertilizers, pesticides, irrigation and new crop varieties—farmers now feed twice the number of people from essentially the same land area, 1.5 billion hectares.

The world’s population is predicted to increase by another three billion people before stabilizing at around 9 billion in 2100. This represents many more people to feed and clothe. Given this global outlook, people who really care about the environment should be looking to support efficient farmers—farmers who can produce a lot of food and fibre from the smallest area of land and with the least amount of water so that more land does not need to be brought under cultivation, and minimal extra water infrastructure developed.

In this regard, Australian producers are extremely competitive, able to produce, on average, for example, significantly more rice, sugar and cot-

ton per hectare of land and megalitre of water, than farmers in any other region of the world. The next big efficiency gains in terms of reducing water use and also reducing pesticide inputs—in other words, in terms of reducing our ecological footprint—will potentially come from genetically modified (GM) crops. Yet the Australian Greens are anti-GM because they are essentially anti-innovation, anti-technology, anti-change. The tangible environmental benefits of GM are being ignored because it seems that they hate technology more than they care about the environment.

The Western Australian Government’s decision to ban GM canola in April this year in response to Greenpeace’s campaigning illustrates the contradiction. In banning GM

The tangible environmental benefits of GM are being ignored because it seems that Greens hate technology more than they care about the environment

canola, WA canola growers are now restricted to the continued production of a variety that is dependent on management with atrazine, a herbicide being phased out in Europe on the basis that it poses an unacceptable environmental risk. The WA Department of Agriculture acknowledges that dependence on atrazine is a problem because of concerns over groundwater contamination.

Most State governments have now banned GM crop plants in response to purported environmental concern. GM cotton is granted exemptions on the basis that it is grown primarily for fibre. Yet approximately

35 per cent of the vegetable oil we consume in Australia is made from GM cottonseed and this oil is currently sold alongside vegetable oil from conventionally grown canola!

GM cotton has been an impressive success, now grown on 90 per cent of cotton farms in NSW and Queensland, with the latest varieties reducing pesticide use by 75 per cent. Environmental activists are ignoring cotton as a source of vegetable oil so that they can invoke the precautionary principle and wrongly suggest that vegetable oil derived from GM canola would be a ‘first’.

Given the global situation, the opposition of the Australian Greens and naïve environmentalists more generally to GM crops is untenable and a clear illustration of their narrow and backward-looking approach to environmental protection. If we redefined our approach to environmentalism as progressive, optimistic and evidence-based, GM crops could be seen as a ‘useful innovation’, an example of how technology can facilitate the production of more from less and in this way reduce our ecological footprint and our need to cultivate more land.

NATURAL SYSTEMS ARE DYNAMIC SYSTEMS

GM crops are not the only items on the activists’ hit list which governments have banned. In a similar fashion, the Queensland and New South Wales Governments have also introduced new legislation to ban broad-scale tree clearing. This is also in response to campaigning and despite a huge increase in the area of woody vegetation.

The Federal Government has supported the bans, purportedly with the overriding objective of increasing carbon sequestration, driven by a fear of climate change and a desire to meet Kyoto targets (even though Australia has not ratified the Kyoto Protocol). A likely outcome will be the further encroachment of woody plants in remnant woodlands and grazing lands and a significantly re- ▶

duced livestock-carrying capacity. The estimated economic cost in rural and regional Queensland is just under \$1 billion dollars. In addition, there has been no consideration given to the impact of a likely doubling of tree cover over this area on surface water and ground water supplies, potentially as far south as Adelaide. In the USA and South Africa, increased tree cover has been shown to impact seriously on stream flows and urban water supplies. Furthermore, in advance of the legislation, the Queensland Government went to great trouble to suppress the findings of a report prepared by its own officers that detailed the detrimental impacts of uncontrolled woodland thickening on a range of environmental and economic values, consequent to the clearing bans.

In New South Wales, while the Government was focused on banning tree clearing to protect perhaps 20,000 hectares of native vegetation, close to 3,000,000 hectares of forest and native vegetation were incinerated in bushfires. The extent and intensity of the bushfires was at least in part a consequence of the 'hands off, leave it to nature' philosophy that had prevented adequate controlled burning.

The environmental campaigning has, in essence, been driven by a belief that pulling down and/or cutting down trees is inherently bad. This approach accords with a static concept of nature; the idea that trees don't re-grow in 'Eden'. Cutting down trees, along with taking water from rivers for irrigation, has almost the status of an original sin.

The reality, however, is that trees do re-grow. Vast areas of the Australian landscape were deliberately maintained as grassland and open woodland, as opposed to forest, by the Aborigines through the use of fire. Remove fire from this landscape and the species assemblages—the ecology—naturally changes. Whether this change is good or bad constitutes a value judgment, but to deny the change is to close one's eyes to the reality of the situation.

If we were to embrace a new environmentalism that acknowledges that landscapes are dynamic, the need for active management of Australia's vast rangeland areas would become obvious. The research focus could change to understanding the triggers for environmental change. Active management is often most critical and cost-effective during short periods of climate change. For example, the establishment of widespread woody weed occurs when there are above average autumn rains in western Queensland.

Furthermore, by acknowledging that change is natural, it may become more evident that 'preservation' will require active management. This may seem counterintuitive, but given that change is the only constant in the natural world, the protection of particular environments with particular

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species assemblages is likely to necessitate a high level of active management. Indeed, a new environmentalism based on the notion of a dynamic landscape, may provide increased opportunities for activism where, in the past, for example, policies have virtually promoted neglect in some National Parks.

Public understanding of the dynamic nature of natural systems could redefine the environmental debate and might well marginalize the Australian Greens. This is an approach that a Liberal Government ought to be able to understand and sell, because liberalism works with, not against, dynamic systems. Indeed, the

dynamic nature of natural systems and the general course of evolution can be likened to Nobel laureate F.A. Hayek's view of liberalism. In *Why I am not a Conservative*, Hayek writes 'the main point about liberalism is that it wants to go elsewhere, not to stand still'.

'HEALTHY' VERSUS 'PRISTINE'

As Australians, we have clearly not really thought through how we want our landscape—forests, waterways, grasslands and rangelands—to be managed, or the consequences of not managing them. In addition, we have not thought through the implications of 'healthy' as opposed to 'pristine'. In the context of the Murray River, 'pristine' or 'natural' during drought may equal dead fish and stressed red gums as surface water recedes and groundwater levels drop.

Governments are currently compiling environmental indicators with a focus on the pristine rather than the healthy. For example, a Murray-Darling Basin Commission study found that insect populations on the bottom of the Murray River were healthy in the 1980s, but in a poor state in 2001. Yet the 2001 assessment also concluded that there had been an improvement since 1980. The contradiction has arisen because environmental scientists in 2001 made their comparisons relative to a purportedly completely natural, pristine environment defined as pre-European settlement—but well watered. The 1980s study accepted that there would be a dominance of insect species in the Murray that favored slow water because the River is highly regulated. The choice of comparison for the 2001 study ensured that the river would fail the 'pristine test', even if large healthy insect populations were found, because it did not acknowledge the changed flow regime.

In *The Skeptical Environmentalist—Measuring the Real State of the World*, Bjørn Lomborg suggests that we should focus on trends, in particular the goal of an 'improving trend'. The

problem, however, with this approach is that there are actually such things as too many kangaroos and dingoes, too much water, and too many trees. In fact, too many trees are threatening the golden shouldered parrot on Cape York—it is losing its safe 'grassy' nesting sites because of too many trees. I suggest a better approach might be the dual goals of 'healthy' and 'biologically diverse'.

Some years ago, I worked with officers from the Queensland Department of Primary Industries Fisheries Group in the development of a new system and philosophy for the maintenance of drains on cane farms—recognizing that these artificial waterways were potentially valuable fishery habitat. We determined that long-term benefits could accrue from the active management of these areas, including the periodic removal of mangroves and sediment (practices that had been prohibited under the *Fisheries Act 1994*) as well as through the incorporation of artificial wetlands, retention and sediment ponds. A critical issue was timing the on-farm management works in accordance with the flowering/fruitlet cycle of marine plants and the migration patterns of local fish species.

Paradoxically, at the same time as we were advocating healthy, biologically diverse artificial drains, including the removal of flood gates and a freer water exchange between on-farm drains and adjacent rivers and streams, the Federal Government was drawing up legislation to isolate cane farms within coastal catchments and insisting that there be a single point of water discharge. This was a result of overarching policies developed at the Great Barrier Reef Marine Park Authority (GBRMPA). The GBRMPA officers could not see any habitat value in better on-farm drainage management because these officers had a very blinkered 'original Eden' concept of nature. To them, farms were a sore on the landscape; something to be isolated and contained.

The value of active management is also relevant to the issue of old growth logging in Tasmania. In this regard it is worth reflecting that populations of forest animals, like communities of the liberal-minded, often flourish after a sweeping away of obstacles to free growth. This may require the occasional clear-felling/burning of some mature or senescing forests—to let in the sunshine and let seeds germinate and new, young trees grow. Some wildlife, including the Leadbeater's Possum, require more than one forest growth stage for their survival: one for nesting and another for feeding.

It is worth reflecting that populations of forest animals, like communities of the liberal-minded, often flourish after a sweeping away of obstacles to free growth

In contrast, the 1992 National Forest Policy Statement focused on increasing the area of old growth forests in reserves. In accordance with this policy, the area has increased by 1.2 million hectares since 1995 and now constitutes 71 per cent of the total 5.2 million hectares of old growth forest covered by Regional Forest Agreements. But this was never going to be enough for the Australian Greens. Their endgame is 'leaving forests alone' which can have the effect of stifling nutrient cycling and energy flow. Interestingly, of the 14 million hectares of forests (equivalent to 8 per cent of Australia's forests) that have been assessed by growth stage, 6.6 per cent is classified as in the regeneration stage, 11.8

per cent is regrowth, 57.4 per cent is mature and 24.2 per cent is classified as senescent.

CONCLUSION

Before the recent federal election, many people feared that the Australian Greens would hold the balance of power in the Senate after the poll. It was envisaged that this might make reasoned political decision-making on environmental issues even more difficult than it has been over recent years. The election, however, threw up something different. Naïve environmental activists have, at least for the moment, a greatly diminished power to threaten and play wedge politics. Theoretically at least, the Federal Government has an opportunity to develop well-thought-through policies. There is no gun to the head.

Redefining environmentalism, both in accordance with how natural systems actually operate and in terms of promoting agricultural technologies and systems that will tangibly reduce our ecological footprint, would indeed be an ambitious undertaking. It would involve a belief in what Hayek describes as the long-range power of ideas, and the preparedness to let change run its course, even if we cannot predict where it will lead. It would involve reconsidering the evidence from ecology and evolutionary biology, but also making value judgments based on a very different vision for the future.

The Australian Greens did not invent conservation, though they have sought to redefine it in their own image. It is time that thinking Australians from both the Left and Right of politics considered alternatives. The Australian Greens' interpretation of our landscape and the workings of technology are at least 150 years out of date. They conflict with the realities of evolution and human need and cannot deliver environmental protection or a better world.

Dr Jennifer Marohasy is the director of the IPA's Environment Unit.

IPA

Business Environment Conservation

JIM HOGGETT

ONE of the regular 'peripherals' of election campaigns featured again in 2004. The major parties both recognized the need for a strong business sector for the continuing vitality of the Australian economy—particularly small business. But unlike the natural environment, which is subject to endless agonizing scrutiny, the business environment receives scant attention.

Although the economic news is currently good, it is an excellent time to review the broader business environment.

So what is the environment that governments have created for business in Australia? What is the environment they have created for those starting out on the risky path of new business? What lurks behind all the official programmes designed to advise and assist those brave or foolish enough to enter the competitive race?

A hard look at the facts leaves one abiding impression: that governments in Australia are both actively and passively hostile to business.

THE TECHNIQUES OF OPPRESSION

Over recent decades, governments have adopted and adapted a series of techniques to oppress business. Some of the techniques are deliberate and others are the outcome of policies designed for other purposes. The techniques include:

- Overt and hidden taxes;
- Mandated expenditures;
- Mandated activity;
- Resource and property confiscation; and
- Impossibly detailed and/or discriminatory regulation.

The examples are numerous.

More Tax

The GST is the classic new tax that was designed to substitute for other taxes. But apart from a few, it has not done much either at the Commonwealth or the State level.

The superannuation levy is a tax under another name. For companies, it is a compulsory payment (tax) made to private-sector tax 'farmers' (superannuation funds). For most retirees it will do little more than substitute for the public pension. The supreme irony was that, having set up this new levy, the government then introduced new taxes on super. They forced people to save for the future then confiscated a significant part of those savings.

The various workcover schemes fall into the same category, as do compulsory insurances for public and product liability. Do we really need \$20 million of public and product liability insurance to set up a market stall?

More Costs

Mandated expenditures are a cunning way of financing government policies while keeping the cost out of the public budget. An example is the compulsory courses which farmers must attend and pay for to certify them to use agricultural chemicals—something they have been doing for many decades by reading the instructions on the package. The courses are provided by third parties and thus never appear as government impositions. Various supplementary compulsory trades certificates for plumbers, builders, etc., are in the same category.

More Blackmail

Mandated activities usually come in

the form of 'If you want to do A, you must do B'. So, if you want to put up a building, you may have to provide facilities in it that are unrelated to your business. Or, if you want to clear 20 trees, you may have to plant 200. A company exerting this sort of leverage would be accused of third line forcing (blackmail) under s.47 of the *Trade Practices Act*.

More Confiscation

Confiscation of property and resources without appeal or compensation now appears principally as environmental legislation. Green is the new red. Native vegetation and fauna protection laws are designed to lock up private land and resources by forbidding activity over large areas of rural Australia without compensation. The *Queensland Vegetation Management Act* is just one egregious example.

More Obfuscation

The list of over-complex, unadministrable and discriminatory legislation is endless and grows every day. Any business, small or large, could present instant examples.

The environmental legislation mentioned above is a prime example. No-one can comply with it. No-one can administer it. It is in a constant flux. It discriminates against the rural sector even as it absorbs farmers' resources in endless, fruitless 'consultation' processes. Do we really need a native vegetation plan for every property in NSW?

Then there are the absurd and impossible disclosure provisions in the *Financial Services Reform Act* where ASIC becomes the Grand Inquisitor of corporate morals. Then we have safe food regulations—do we really need a

100-page code manual for every small food producer?

Finally, we have the ACT enacting specific, discriminatory industrial manslaughter laws purely for business on top of existing criminal law.

SO WHAT DOES IT FEEL LIKE?

Most businesses will have as little to do with government as possible. It is rarely a rewarding encounter. However, that little turns out to be quite a lot. Even family businesses face the usual paper warfare with which they are privileged to burn the midnight oil. Internet interactions do not ease the overall burden.

Take on a few employees and grow your business and a whole range of new costs and risks appear—unfair dismissal, multiple leave provisions, anti-discrimination programmes, superannuation levies, workcover, etc., etc. And every rule has its own bureaucratic policeman who is anxious to ‘help’ the hapless business person incur the compliance costs. Such ‘help’ is increasingly mandatory and subject to a fee. The point is that all this adds to the costs and extends the risks faced by business.

Various government programmes exist to offset the costs of policies and to provide incentives. Although helpful, these are often merely temporary transfers back to those affected, are limited in their impact and costly to administer.

For small business the difficulty is compounded by lazy governments simplifying their own task through uniform legislation. Thus ‘one size fits all’—which means that small businesses, with few in-house resources, face the same compliance demands as a large business. The fact is that most small businesses cannot even *know* all the law that applies to them—a sad state of affairs in any democracy.

We have had strong, continuing productivity gains from the structural economic reforms of recent decades. New opportunities for structural reform are limited. Future productivity gains and economic growth in Australia will depend more and more on the

environment which governments create for the enterprising, creative people striking out on their own.

To grow and diversify is the essence of a successful economy. The most successful overseas nations have governments actively encouraging enterprise and keeping costs down. Though Australians love the wealth that business generates, we have a national ambivalence towards business success. This fosters governments that actively discourage enterprise and load it with new costs at virtually every parliamentary and local council session.

WHY NO PROTESTS?

The level of noise from the business sector is generally drowned out by the strident protests and demands from

The fact is that most small businesses cannot even know all the law that applies to them—a sad state of affairs in any democracy

hundreds of other special interest groups. Business concerns, particularly with the slow growing canker of incremental exactions and regulations, do not make good copy for the tabloids or television.

Business people, by definition, generally have very little spare time to study the dense verbiage of government documents or to travel to the multiple government sources of the anti-business policies. They face death by a thousand cuts, administered by a thousand different executioners.

Moreover, the reach of government into business and personal life is now so deep and extensive that there is always a fear factor for protesters that the official or politician with whom they are dealing has ways to make life uncomfortable. By contrast, the environ-

mental activists sitting in front of a bulldozer will generally not have their livelihood at stake—it may be their livelihood.

For their part, small business operators will often not know of new impositions until they are notified by their accountant or a freelance legal consultant that they are in the firing line again.

HOW CAN WE STOP THE ROT?

Stopping this cancerous growth from further weakening our business sector involves a few, fundamental changes in attitude and behaviour.

All levels of government should just stop:

- feeling they have to respond to every demand from every interest group for government intervention;
- trying to eliminate every risk in society; and
- using the business sector as a vehicle to enact policy—virtually as an arm of government.

All this does not imply more regulatory review agencies to examine new and existing regulation. Experience suggests that these quickly become public service Enemy Number One and they rarely have the support of their sponsoring minister.

Ministers and officials should have direct responsibility for a substantial rolling programme of deregulation. This implies a significant change of attitude and operations. It will leave many politicians feeling lost. After all, what politicians love to do is to find new ways of bossing the community around. They could assuage their loss by reviewing and taking an axe to existing burdens on business. This major task and duty is worthy of the effort and ingenuity of any strongly democratic government.

As a past Chairman of the US Council of Economic Advisers once said, ‘Don’t just stand there, undo something’.

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I P A

The Revolution in Telecommunications

CHRIS BERG

ALTHOUGH a strong telecommunications policy was not judged by any political party to be a powerful electoral strategy, the resounding Coalition victory has put Telstra strongly back into the spotlight. The privatization of Telstra, for so long a backburner issue, has suddenly become not just a possibility, but almost a certainty.

The Productivity Commission recently released a draft of its Review of National Competition Policy Reforms which, in part, advocates an enormous structural change to the carrier and to the Australian telecommunications industry.

The copper wire network in Australia is based on an open access regulatory system. Telstra owns and is responsible for the network, while the ACCC forces the carrier to rent the network out to the other carriers. This system is akin to forcing the owner of a property to take boarders, with the cost of rent subject to centralized price controls—similar to the rent control system in New York City.

Needless to say, this process is highly inefficient. Wholesale price changes are not controlled by market forces, but by a slow and time-consuming process of bureaucratic review, and often legal proceedings. It can also be used by some companies as a weapon to wield against competitors—by claiming that another carrier is acting anti-competitively, companies can stifle others' business. Still, at the time of the original sale of Telstra, when nearly all telecommunications was con-

ducted through the same copper wires, such an open access system may have seemed attractive.

The proposal of the Productivity Commission is, therefore, to split Telstra in two, to create a clean separation between its retail and wholesale functions.

Passing ownership of the network to a separate entity would compel Telstra to petition and deal with this new entity on the same footing as all the other 100-plus Australian carri-

The Productivity Commission's proposal is akin to reforming a water-canal transport network after the invention of the car

ers. The loss of market dominance by Telstra would surely follow, as would the repeated cries of 'Telstra is a bully!' As the Productivity Commission argues, the entity that arises from the vertical separation of the network would improve its relations with the other carriers. No longer would the owner of the network also be a competitor, but more a neutral arbiter of the industry.

Would the entity be a private company or a further government bureaucracy? The restrictions placed

on private ownership would be non-trivial. For instance, such a firm would be forbidden to offer any cut-rate services to businesses or consumers because to do so would make the separation from Telstra meaningless. This private entity would be trapped between the ACCC and the telcos as the regulators try to micro-manage the industry—an unenviable position in which to be, and a prospect which would excite few firms.

The other option is to leave the government in charge. At least, by this method, the ACCC would be less busy. There would be no need for the tedious legal back-and-forth that frustrates our telecommunications innovation cycle. By essentially integrating the regulators with the regulated, the ACCC would have no worries about promoting 'competition and fair trade' for the 'consumers, business and the community'.

By this method the government could continue to fix wholesale prices at whatever it feels are in the best interest of the community. Not only that, but it could use its new power over the industry to regulate consumer prices—refusing to rent lines to companies which charge more than 22 cents for local calls, for instance. Instead of removing the government from the business operations of telecommunications firms, ownership of the copper wire gives them far more capacity to manage the industry as they see fit, without the pesky corporate lawyers trying valiantly to defend the competitiveness of their firms.

There is a term for this, of course—'infrastructure socialism'. It

is not intended as a compliment. This would give them the entire copper wire network in Australia, and control of the entire industry, not just the occasional oversight that the ACCC now affords them. It is an understatement to say that government is not the most effective manager of the telecommunications industry—Telstra was partly privatized in 1996 for a reason. For instance, installing a basic copper wire phone service in some rural and regional areas used to take up to 30 months; it is now less than three. Exposing the telecommunications industry to competition has increased the quality and decreased the price of services across the board—an illustration of the stunning inefficiencies of socialized communications.

Considering both options, it is clear that selling the wholesale side of Telstra to a private company is far preferable to leaving it in the hands of a government bureaucracy. But what is not clear is why slicing Telstra across the middle is actually necessary.

THE REVOLUTION IN TELECOMMUNICATIONS

Telstra may have a monopoly over the copper wire system, but that doesn't mean that Telstra has a monopoly over the means of communications. Not any more.

It is often argued that the successor to the industrial revolution of the eighteenth and nineteenth centuries has been the revolution in computing of the last two decades. This is not without truth, but it is becoming clearer and clearer that the revolution is not that of 'computing' but of 'communications'. Since the first e-mail message in 1971, the most powerful and the most useful of all the myriad functions that computers can fulfil has been that of communication. There is nothing computers like to do more than talk to each other. And we just suck it up.

It is estimated that, by 2005, over 35 billion e-mails will be sent ... each day.

Of course, innovation doesn't stop at e-mail. Developments in user-to-user software have all but broken any social restraint on breaking copyright in music and movies. Similarly, a new system, Voice over Internet Protocol [VoIP], promises to do the same for the copper wire network.

Simply put, VoIP is a method of making a call to a traditional cop-

The benefits of splitting Telstra in two will, at best, last for a few years, and will then be nullified by technological progress

per-wired phone from a computer through an Internet connection. The quality can far surpass that of traditional phone calls, depending on the individual preferences of the users. (Like most computer programs, VoIP software is highly customizable.)

As long as one is connected to the Internet, the outward call bypasses the copper wire network—and, by doing so, bypasses Telstra's monopoly. The 22 cent phone call which is the norm around the country drops suddenly to a fraction of that. If, however, one makes calls between two VoIP services, they become effectively free. And VoIP is not just idle experimentation. Skype, the most popular program, boasts that it has already been downloaded 33 million times.

To use VoIP services, you still need an Internet connection, preferably a broadband one. In Australia, one of the most common methods of broadband access is still through the copper wire networks, a system called ADSL. ADSL is sub-

ject to the same forced access regime that traditional voice services are—Telstra owns the lines and is forced to sell access to its competitors by the ACCC.

The telecommunications revolution, however, is breaking this monopoly as well. Many Australians are connected to the Internet via their pay-television cable lines. Around the world, companies are starting to lay fibre-optic cables. The capacity of this technology is incredible. In principle, optic cables can carry up to 25 trillion bits per second—enough, in a single cable, to carry all of the conversations in Australia and the United States at any one time, and still leave room to provide broadband Internet.

Innovation isn't limited to laying cables. Wireless broadband is steadily becoming more common in homes and businesses, and smaller ISPs are experimenting with full wireless services. Exetel is providing wireless services to metropolitan Sydney for prices comparable with normal ADSL connections.

When you combine the extraordinarily fast Internet connections being developed and installed around the world with the monopoly-breaking Voice over IP, it is clear that we are undergoing a revolution in telecommunications. But the Productivity Commission proposals appear ignorant of these momentous changes. The benefits of splitting Telstra in two will, at best, last for a few years, and will then be nullified by technological progress.

The Productivity Commission's proposal is akin to reforming a water-canal transport network after the invention of the car. Considering the massive cost, the legal nightmare, and the damage to Telstra's shareholders' investment, splitting the company is just not worth it. The benefits are both marginal and temporary.

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IPA

Blind to Innovation

The CSIRO in the 21st Century

TOM QUIRK

THE Howard Government's impending control of the Senate invites new thinking about reform of even the most cantankerous dinosaurs. Surely one of the deserving objects for reform should be Australia's failing 'innovation' icon, the CSIRO. It has everything any self-respecting reformer could want: an over-long history of self-justification, demonstrable institutional capture by its staff, and claims for taxpayer support that put it up with the ABC for general hubris and arrogance.

Consider the CSIRO's language and the key messages running through its Strategic Plan for 2004 to 2007. Here the national 'Inventor' has firmly set itself the task of remaking the Australian environment and economy using science to drive innovation. This task is an absurd impossibility. Innovation, for an open economy such as Australia's now is, cannot be planned, let alone by an agency so remote from the market and the Australian community as the CSIRO.

In fact, the Strategic Plan for 2004 to 2007 is a bizarre document with some

26,000 words of often silly nonsense of the 'Hail to the athlete, hail to the scientist' ilk. Equally revealing, a word search for 'market' brings up 14 references. These, when filtered to relate to markets with customers, reduced to just five!

THE PROBLEMS: DIVERSITY AND DIRECTION

The CSIRO reports to the Minister of Science, yet, in its Strategic Plan, it is not the Minister but 'the nation (that) has come out in favour of a

CSIRO working harder on public good ... as well as our commercial mission ... given Australia's low level of corporate R&D relative to other countries' (Page 82, Strategic Plan). Let us examine the situation.

Table 1 shows that the dominant spending on R&D is by business. There are two measures of the CSIRO engagement with the private sector, the 8.5 per cent of its external revenue from business (representing only 1.3 per cent of Business R & D) and the 1.5 per cent received

Table 1: Australian Research and Development 2002-2003

Australian Research and Development Expenditure	\$ millions	\$ millions	% of Total R&D Expenditure
Business		5,978.6	
Amount Spent with CSIRO	77.8		1.3
Higher Education		3,429.6	
Royalties & Licence Fees	63.5		1.9
Government (C'with & State)		2,482.2	
Private non-profit		359.5	
Total Expenditure		12,249.9	
CSIRO Revenue	\$ millions	\$ millions	% of Total Revenue
Commonwealth Grant		639.3	69.9
External Sources			
Australian Private Sector	77.8		8.5
C'with, State & Local Govt	76.8		8.4
Rural Industry R & D Corporations	42.6		4.7
Cooperative Research Centres	32.0		3.5
Overseas Entities	34.3		3.8
Royalties & Licence Fees	13.8		1.5
Adjustment	-1.9		-0.2
Total External Sources		275.4	30.1
Total Revenue		914.7	100.0

Sources: CSIRO Annual Report & Website, ABS, DEST.

from licences and royalties. The Higher Education sector earns more from royalties than the CSIRO.

For the CSIRO there is not much partnership with industry and little to show for past invention. This should come as no surprise as we shall see.

The CSIRO is an organization of some 6,000 staff with assets of over a billion dollars. It has 20 divisions that operate on 60 sites in Australia. Its research interests range from the smallest viruses to the edge of the universe. The applied targets span the needs of the country from health to wealth, covering both public and private good. The question is whether an organization, which is the twenty-first-century equivalent of Renaissance Man in terms of its diversity of focus, can make a contribution so different from that of the Higher Education sector that it will justify its continuing existence.

THE TRUTH ABOUT INNOVATION

The self-defined 'problem' for the CSIRO is: *strategic planning for research with an end point of innovation*. Innovation requires many contributions, often on a complicated, delicate, difficult path, not related to scientific research.

John Kay, in his most recent book, *The Truth about Markets*, discusses innovation, central planning and pluralism. There is no doubt that central planning is unsuccessful and frequently damaging, while pluralism is an important component of market economies.

Kay uses the emergence of the personal computer as a wonderful example of an innovation that defied planning. He sums up by asking, 'Who was in charge of the successful development of the personal computer industry?' The answer is that nobody was 'in charge'. In fact it was difficult to see even a year ahead what might be, let alone plan for it.

Studies of European and United States innovation in the 1980s (confirmed by United Kingdom data in

2001) showed that universities contributed 4 per cent and government laboratories accounted for 2 per cent of innovations. The remainder was made up from industry with 80 per cent, with the balance from its customers, competitors and inventors. Within companies, the commercial staff was twice as successful as the technical staff in choosing winners but still had a success rate of only 55 per cent. So being in the right place, in the market and in the business, are key attributes for successful innovation.

It has everything any self-respecting reformer could want: an over-long history of self-justification, demonstrable institutional capture by its staff, and claims for taxpayer support that put it up with the ABC for general hubris and arrogance

THE SOLUTION

The most obvious beginning for reformers is to see the CSIRO for what it is: a leftover from the mid-twentieth century that evokes a regulated, paternalist, protected Australia where markets are misunderstood and distrusted. The CSIRO's great days were in providing technical solutions for Australia's farm sector, where producers were unable to fund innovation or capture its fruits owing to its small scale. At that time, Australia's universities were unable to undertake the public good research, so a specialist institution was established.

Those days are now decades gone, but the institution remains like a dead weight on the Australian economy and its contributing scientific base, providing mediocre public sector careers for scientists who are insulated from the increasingly globalized Australian economy.

Because the CSIRO cannot deliver on its mission it should be broken up. It is humbug to take the alternative course and recommend that yet another impossible mission be found for it. The fact is that centrally planned science does not fit with the pluralist character of modern Australia. The intention is not to destroy some of the crown jewels of Australian science, but rather to ensure that they survive in organizational forms that fit better with a different Australia. The divisions should be found 'foster parents'. National facilities and activities devoted to the public good should be tied to the appropriate government departments, while academic activities should go to universities as institutes. Activities that deal with non-competitive agricultural, food and industrial development should be located in free-standing institutions with a mix of government and private-sector support. There is an intriguingly instructive model that policy makers might care to study from the private sector: namely, the recent success of Bluescope Steel and One Steel following their belated divestments from the reforming mothership, BHP-Billiton.

The lesson that emerges from the break-up of large public sector bodies is the release of 'binding energy'. There is no more central management or planning. Management and staff have more freedom to act, their Boards take more interest in them, and their customers are closer to them. They can, in short, flourish.

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Liberalism's Ambitions

JOHN ROSKAM

There is a certain attitude in the world, by some, that says that it's a waste of time to try to promote free societies in parts of the world ... I just strongly disagree with those who do not see the wisdom of trying to promote free societies around the world. If we are interested in protecting our country for the long-term, the best way to do so is to promote freedom and democracy. And I simply do not agree with those who either say overtly or believe that certain societies cannot be free. It's just not a part of my thinking.

— George W. Bush at his first press conference after being re-elected as US President, 4 November 2004

For most of the twentieth century it was the political Left which proclaimed that the world could be made better. Liberalism, as the most important philosophical alternative to the Left, was portrayed as narrow, self-interested, and without hope. Taking as its cue *The Communist Manifesto*, the Left argued that the individual liberties of liberalism were ideas designed merely to protect 'bourgeois society'. Perhaps Marx's most significant contributions to the philosophy of the Left was his belief that to aspire to freedom was illegitimate because freedom was only a 'bourgeois conception' that operated to protect the economic interests of the privileged classes. And of course the freedom at which Marx directed most of his criticism was the freedom to possess private property. Under the lib-

eralism of John Locke, the right to private property flowed inevitably from the recognition that individuals had the right to the fruits of their own labour.

The Australian federal election of 2004 is a long way distant from the 1840s of Karl Marx, but his arguments still resonate. Many in the Labor Party and on the Left have blamed the 'selfishness' of families with mortgages who overwhelmingly voted for the Coalition and who supported John Howard because they believed that the Coalition was more likely than the ALP to keep interest rates low. Barry Jones, the former national president of the ALP, wrote after the election that the Liberal Party could be renamed the 'self-interest party' because 'the main beneficiaries of Liberal rule are essentially the voter and his/her children'. The basis of Jones's complaint—which is that the desire of individuals to own a home and provide financial security for their families is for some reason illegitimate—is little different from that put over 150 years earlier.

Socialism and communism, the two most important ideologies of the Left, differed in some respects, but the objective of each was the same—to achieve nothing less than a dramatically improved society. The Left promised to overcome ignorance, abolish poverty, and institute peace. Ideological and practical revolutionaries of the Left were proud of the fact that they believed their vision was universally applicable to all people of all nations.

The collapse of communism and the failure of socialist states

around the world revealed the Left's vision to be unattainable. In countries where policies inspired by the Left were implemented, the condition of the people was made worse. The record is unambiguous to all except those such as the Hungarian theorist, Gyorgy Lukacs, who asserted in 1919 that Marxism would still be 'true' even if every one of its specific historical claims turned out to be empirically false.

The Left is now beginning to recognize that the obvious can't be ignored indefinitely. Given that the Left's policies have proved disastrous, it might have been assumed that the attraction of its policies might have waned. This is true to some extent, but in the institutions where the Left still holds sway, particularly in parts of the media and academia, those who regard themselves to be of the Left cling to their position as firmly as ever, if not even more firmly than before. What has changed, though, is that no longer does the Left proselytize its own cause in the way that it did, say, in the 1940s or 1950s. It can't do so because the historical record is now apparent. The Left has abandoned the pretence that its policies offer any solutions for the problems of the twenty-first century, and instead its efforts are now devoted to attacking liberalism. Ironically, one of the main criticisms of liberalism made by the Left is that its principles purport to be appropriate regardless of an individual's culture, religion, race or sex. On this basis, the promise of liberalism as something available to all people is no different from the promise made by communism

and socialism. But while the Left incorrectly decries liberalism as 'imperialist' for this reason, it doesn't acknowledge that its own philosophy would be no less 'imperialist'.

A lesson from the history of the twentieth century that the Left pretends it has learned is one which dictates that because the Left's hope for the implementation of a universal philosophy failed, then any other philosophy which likewise aims to be universal will also fail. Such false logic is heard every day, but it is demonstrably wrong. An overweight, middle-aged man would be incorrect if he assumed that because he could not run 100 metres in less than ten seconds then the feat is impossible. It isn't. Even Oxford dons sometimes fall for a similar sort of reasoning.

The once liberal, but now liberal-sceptic, John Gray recently questioned in the *New Statesman* whether liberalism was viable in the long term. He assumed that because neither socialism or communism were viable in the long term, so too liberalism could not be, and he went on to criticize those such as Margaret Thatcher for believing 'that freedom is the natural human condition'. Gray would be more accurate if he had said that for Thatcher, and for George W. Bush, there existed a belief that freedom *should* be the natural human condition, even if, for millions around the world, it was not currently. In their eagerness to condemn Thatcher, Bush and others, Gray and the Left have condemned themselves to a position which accepts that freedom is to be available only to the lucky few.

LIBERALISM'S RESPONSE

In contrast to their opponents, supporters of liberalism have been generally reluctant to make any grandiose claims for their philosophy. Before the Second World War, in those countries where liberalism prevailed, it was assumed to be the

natural political condition. There was little consideration given to enunciating its benefits, and the totalitarian challenges to liberalism were regarded as distant. After 1945, and with the advent of the Cold War, the efforts of liberals were devoted simply to defending liberalism in those places where it existed. Liberals had little commitment to spread the virtues of their philosophy, for to attempt to do so would invite reprisals from those nations that were anything but liberal.

In the second half of the twentieth century, liberalism also became a less coherent philosophical direction, just as 'classical liberalism'—centred on the protection of

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rights—was challenged by 'social liberalism'—founded in the writings of John Stuart Mill, which held that, in some circumstances, government could intrude on the rights of some in order to provide 'positive' rights for others. This was the principle of the 'welfare state' which did much to undermine the faith in liberalism.

Some of the ambivalence liberals have had about their own philosophy was the result of the success of the Left in convincing liberals that liberalism was not uni-

versally applicable, and could only operate in particular communities under special circumstances.

The post-War victories of liberalism around the globe did not embolden liberalism's advocates to take deliberate steps to spread their philosophy. Not until the 1980s did liberal leaders in the West begin to assert the strength of their vision, and proclaim a belief that their own actions could hasten the demise of liberalism's alternatives. There are three essential reasons for the aversion liberals have in advancing their cause, and an examination of those reasons reveals a great deal about the development of liberalism as a political force during the twentieth century.

First, liberalism had no experience in disseminating its message. Liberalism was rooted firmly in the domestic conditions of individual countries, and in so far as liberalism had any international dimension, it was restricted to economics and the freedom to trade. It had no world view, unlike socialism or communism and, before the 1980s, the last time it could be said that it took a position on political and social conditions on a global scale was in the nineteenth century in relation to the abolition of slavery.

Second was the fact that even among some of its most fervent adherents there existed a view that it was unnecessary to promote liberalism because its success was inevitable. This is the basis of Fukuyama's 'the end of history' thesis and it is found in various forms in works such as Thomas Friedman's *The Lexus and the Olive Tree*. Fukuyama and Friedman both believe that the expansion of liberalism cannot be stopped and is irreversible. To Fukuyama, human agency does not have a great deal to do with the adoption of capitalist liberal democracy, and for him the spread of liberalism has as much to do with the inherent weaknesses of socialism and communism as it does with its intrinsic benefits. As

Fukuyama acknowledges, there is a large element of historical determinism in his view that politicians can accelerate or slow the adoption of liberalism, but the process cannot be halted. It is therefore somewhat of a paradox that 'the end of history' thesis didn't appear until after Ronald Reagan had committed the United States to fighting and defeating communism. Fukuyama doesn't appreciate that the 'end of history' was only inevitable because Reagan made it inevitable. Given his position, it is not surprising that Fukuyama has recently expressed doubts about what has been called 'democratic globalization'—the idea that democracy can become a global phenomenon.

The third reason why the spread of liberalism did not become an objective of liberal countries was that such an aim conflicted with 'realism', the dominant theory of foreign relations as practised in the West since at least the Congress of Vienna after the end of the Napoleonic Wars. Realism made the defence of self-interest the goal of diplomacy, even if to do so required accommodation with countries that were not liberal. Realists scoffed at suggestions that foreign policy should in any way be motivated by ideology. The convenience of realism made it attractive to generations of Western diplomats who, under its doctrine, had to do nothing more than maintain the international *status quo*.

One of the consequences of realism was to embed a moral equivalence into foreign affairs because whether an ally or enemy operated under a liberal regime was not to be taken into account when determining national interests. A particular problem for realists (and one which they have suffered acutely after September 11) is that if the only approach that they apply to foreign policy is one of practicality and so-called 'reality', they have no way of understanding, let alone

dealing with, those who do not decide their actions according to practical or realistic measures—for example, fundamentalist religious terrorists.

NEO-CONSERVATISM AND LIBERALISM

In the last few years, 'neo-conservatism' is the label that has been given to the idea that liberal nations can, and should attempt to, spread political and economic liberalism to nations that are not liberal. Interestingly, 20 years ago, neo-conservatives were usually defined as 'realists', but now the two are regarded as polar opposites. Those who believe in 'neo-conservatism', the 'neo-cons', are thought

Liberalism offers many things but, at its core, it recognizes that all individuals, regardless of their race, sex, or religion, should decide for themselves how they are to live

to be epitomised in George W. Bush. 'Neo-conservative' is a complete misdescription, because such a doctrine is anything but conservative, for it is a repudiation of the methods employed by liberal states in the West for the last 100 years.

Neo-conservatism is often presented as something new and radical, but its underlying assumption, which is that liberalism is a non-negotiable value, is hardly original. This premise motivated the great statesmen of the Second World War—Churchill, Roosevelt, and Truman. The Left persists in using

the term 'neo-conservative' because it refuses to acknowledge that the philosophical basis of neo-conservatism lies in liberalism. If anything, 'neo-liberalism' would be a more appropriate term, if it were not for the complication that neo-liberalism itself has already come to take up such a broad range of connotations as to be almost meaningless.

Neo-conservatism has been attacked by both the Left and the realists. The Left's criticism of neo-conservatism can be easily understood because the Left is opposed to the liberalism upon which neo-conservatism is grounded. The objection of realists to neo-conservatism arises from a different perspective. Realists argue that the ideal of twenty-first-century neo-conservatism, which is the establishment of political and economic liberalism throughout the world, is as unattainable as was the twentieth century ideal of the Left. However, such a position only considers *what* happened, and it ignores *why* it happened. Further, consistent with their tradition, which discounts the role of ideology, realists forget the essential differences between the doctrines of the Left and of liberals.

The vision of the Left failed because socialism and communism denied the essential human desire for self-determination. Liberalism offers many things, but, at its core, it recognizes that all individuals, regardless of their race, sex or religion, should decide for themselves how they are to live. In so far as this is its core principle, neo-conservatism provides a far greater chance of overcoming ignorance, abolishing poverty, and instituting peace, than ever did its alternatives.

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I P A

REVIEW

Education Agenda

KEVIN DONNELLY

Latham Needs to Rediscover the Basics

Education is generally considered a plus for the ALP, and commentators during the recent election campaign reinforced the point that, while the Howard Government was strong on economic management, Latham's schools policy was a vote winner.

I beg to differ. Consider Labor's plan to take money from so-called 'elite schools'. Mark Latham argued that schools such as the Kings School were over-resourced and that parents sending their children to such schools should be further penalized for making the choice.

While one might think that Latham's commitment to the ladder of opportunity would mean supporting those parents who want the best for their children, his actions revealed that such talk was nothing but hollow rhetoric.

As suggested by the four archbishops, the ALP's schools policy was divisive and reminiscent of the bitter debates over State aid. Instead of accepting that parents have the right to choose where their children are educated, Latham's policy signalled a return to the politics of envy and the class war.

A second area where the ALP got it wrong was the way it aligned itself with the Australian Education Union (AEU). That the relationship is a close one is understandable: the AEU committed \$1.5 million to get rid of the Howard Government and campaigned in 28 marginal seats. Unfortunately for the ALP, the reality is that the education policies of the AEU are guaranteed to put off most parents. The union opposes competitive assessment, re-

fuses to hold teachers or schools accountable for performance and embraces a politically correct, dumbed down view of the curriculum.

Compare Latham's policy on schools with Prime Minister Howard's approach. Earlier this year the PM suggested that parents might be deserting government schools because they are too politically correct. After being attacked as reactionary and out of touch, the election proved the Prime Minister correct and in tune with the broader community. The reality is that the Coalition's education policy better reflects what parents want. That parents want flexibility and choice is also proven by the continued drift to non-government schools and the popularity, in NSW at least, of selective high schools.

Research carried out when writing *Why Our Schools are Failing* also proves that the Coalition's initiatives—such as performance pay for teachers, establishing Australian Technical Colleges and targeting funding at the local level—reflect overseas best practice.

If one examines those systems that outperform Australia in international tests, such as the Netherlands, Singapore and the Czech Republic, it is possible to identify the characteristics that promote success. Such systems:

- adopt a strong discipline-based approach to what is taught;
- hold schools accountable and have explicit rewards and sanctions for performance;
- have clear syllabuses linked to textbooks and teacher training;
- enforce greater time on task in the classroom; and
- have regular testing and recognize that not all students are the same.

In the Netherlands and Singapore, there are a range of certificates and types of schools based on the belief that students have different interests and abilities. This is unlike Australia where all students, with minor exceptions, are forced into the one educational strait-jacket.

If Australian schools are to be effective, then it is important that the education system breaks away from a top-heavy, bureaucratic model dominated by provider capture. It is no longer feasible that schools should be run simply for the benefit of bureaucrats and teacher unions.

Non-government schools in Australia, where principals have the power to hire and fire staff, demonstrate that success follows when teachers are employed who are committed to the culture of the school. It is also true that teachers perform better when they know that success will be rewarded.

Finally, we need to move on from the sterile debate about State aid to non-government schools. All schools have the right to exist and to be properly funded and parents should not be penalized because of the choices they make for their children.

In fact, on the basis of equity and social justice, overseas research related to vouchers should be considered because more parents would then be in a position to decide which school their children should attend.

Dr Kevin Donnelly is the author of Why Our Schools are Failing and, before the election, he worked for the Hon. Kevin Andrews, the federal Minister for Employment and Workplace Relations.

IPA

Biz-War and Socially Responsible Investing

JAROL B. MANHEIM

SOcially responsible investing (SRI) is all the rage these days, and who could quarrel with the impetus to channel investment funds toward pro-social applications and away from antisocial ones? It is a movement that, by its very name, has an inherent claim on the moral high ground of the global economy, a claim that gives to the movement its legitimacy, its appeal, its dynamism and its growing power.

It is a claim to moral authority that deserves closer examination.

RECONCEPTUALIZING THE CORPORATION

Let us begin that task by rethinking the nature of the corporation whose behaviours are the target of SRI activism. Traditionally, economists and business people alike have thought of the corporation primarily as an engine of wealth generation—a mechanism for producing and selling goods and services for financial gain. That conceptualization carries with it a whole series of values, preferences and expectations about how corporations will *and should* behave, and most particularly, about the kinds of goals toward which they should progress.

But suppose we take as a starting point a rather different premise. Suppose we view the corporation as an institution in social space whose purpose is to balance precisely a large number of sometimes reinforcing and sometimes competing interests—held by the corporate stakeholders—only some of

whose goals are economic in character. Think of this social space as a large sheet of an elastic material stretched out in a frame, and think of each stakeholder as a ball bearing of some variable magnitude (depending on its importance to the corporation in question) that occupies a location somewhere on the sheet. Each causes a dimple in the surface; the heavier the weight,

It is more appropriate to think of SRI as an industry—one whose lifeblood is a constant stream of attack messages against corporations

the deeper and broader the dimple. Then mentally place the corporation—the largest ball bearing of all—at that place on the sheet where it lies closest to, but will not disrupt the locations of, its stakeholders (in other words, where its placement will not cause them to move).

Take your hands away. Don't breathe. The system is in balance. Now very carefully move the smallest (least important) stakeholder to

a slightly different location. Not much happens. But do the same with the largest (most important) stakeholder and the stability of the system is disrupted. Some other stakeholders may move as well, but what is certain is that the corporation at the centre of this figurative little grouping will have to move in the same direction as the largest stakeholder if it is to restore the balance in the system.

The SRI movement is designed to move the corporate system in precisely this way, both one company at a time and in the aggregate. It is designed to generate leverage on corporate behaviours through the pooling and application of wealth in sufficient volume to force changes in corporate governance, in corporate behaviour, and, collectively, in public policy. More than that, it is designed to take maximal advantage of the growing interconnectedness of the global economy.

RECONCEPTUALIZING SRI

Though I have been referring here to an SRI 'movement', at least one critic suggests that it is more appropriate to think of SRI as an industry—one whose lifeblood is a constant stream of attack messages against corporations. In the words of business consultant Sarah Fuhrmann, 'Far from promoting the corporate good, the CSR/SRI industry depends on being able to continually characterize and point to 'bad' companies that can both perpetuate the industry and make it look 'good' by comparison.'¹ At the very least, this view directs our

attention to the centrality of anti-corporate rhetoric in the advancement of SRI interests—to the need to power a movement not only with affirmative appeals to moral rectitude, but also with the construction of an enemy against which to mobilize. Claims to moral authority, it seems, require demons as well as angels.

SRI AND FIDUCIARY RESPONSIBILITY

For more than 30 years now, various individuals and groups have been developing ever-more-sophisticated means of pressuring corporations to behave in ways these activists deem more appropriate, whether with respect to workplace, environmental, human rights, consumer or other issues. Organized labour, environmentalists and others have taken on companies by employing what are generally known as corporate, or anti-corporate, campaigns. These efforts, grounded in a technique termed 'power structure analysis', follow very much the pattern described above, which is to say, they are designed to exploit vulnerabilities in various stakeholder relationships to move the targeted companies through social space. Included have been such tactics as boycotts, community protests, regulatory and legislative attacks, litigation and reputational warfare. There have been literally hundreds of such campaigns—against banking and insurance interests, mining and timber companies, oil companies, manufacturers and retailers. But despite some successes—Mitsubishi does not process salt in Baja California, Pepsico does not operate in Myanmar—all of this activity has by-and-large failed to bring about large-scale change. One possible explanation for this outcome is that most such efforts have been devoted to moving the least weighty stakeholders.

The SRI movement addresses that fact by bringing pressure on

those stakeholders with the greatest clout at publicly-held companies—institutional investors. Many companies have demonstrated that they can withstand pressure from customers, vendors, regulators, the courts, the media and the public—or at least that they have the means to respond sufficiently to rebalance perceptions without substantially changing their behaviours. But pressure wrapped in a cloak of social responsibility and brought by those who own the largest portions of corporate shares is far more difficult to resist.

To exert that pressure with growing effectiveness, the SRI movement has taken two vital steps. First, it has expanded its resource base in a series of stages that

The question of whether investors can do well financially and do what they regard as social good at the same time and with the same resources is an important one

have given it control over progressively larger pools of other people's money and, importantly, of the proxy votes that come with share ownership. Second, it has moved to free itself of certain shackles that generally attend to those who manage other people's money.

The SRI movement has systematically expanded its zone of control over resources, beginning in the 1980s with the establishment of specialized mutual funds such as

Domini Social Investments or Walden Asset Management. These were created as investment vehicles for those who sought to use their funds to support companies and industries they regarded as having adopted socially responsible lines of business and business practices. The SRI movement used their share-votes to advance progressive policies in and through the boardroom. This specialized mutual fund sector then expanded as mainstream investment firms began their own SRI funds. This created a substantial base of capital to be invested in line with SRI objectives, but in the grand scheme of the global economy, it was barely consequential.

The 'real' money in this arena is that managed by union, public employee and other pension funds (such as CalPERS, the activist American fund, or Hermes Pensions Management Ltd in the UK), and by such major mutual fund managers as Fidelity Investments or Barclay's. And that money is by law or custom invested and voted in a manner consistent with the trustees' fiduciary responsibility to the beneficiaries.

Traditionally, fiduciary responsibility has been defined narrowly as maximizing the financial return on investment, and trustees have been reluctant (or prohibited) to use their shareholder power to advance corporate policies that might produce what some regard as pro-social outcomes *at the expense of* financial outcomes. But over the last decade, SRI advocates have worked to remove this limitation. In the US, for example, they have produced studies purporting to demonstrate that SRI strategies equal or out-perform more traditional approaches,² and they have begun developing explicit statements of support for multiple-objective investing. The AFL-CIO (the principal US labour federation), for example, has published a set of *Proxy Voting Guidelines* for trustees of union pension funds, ►

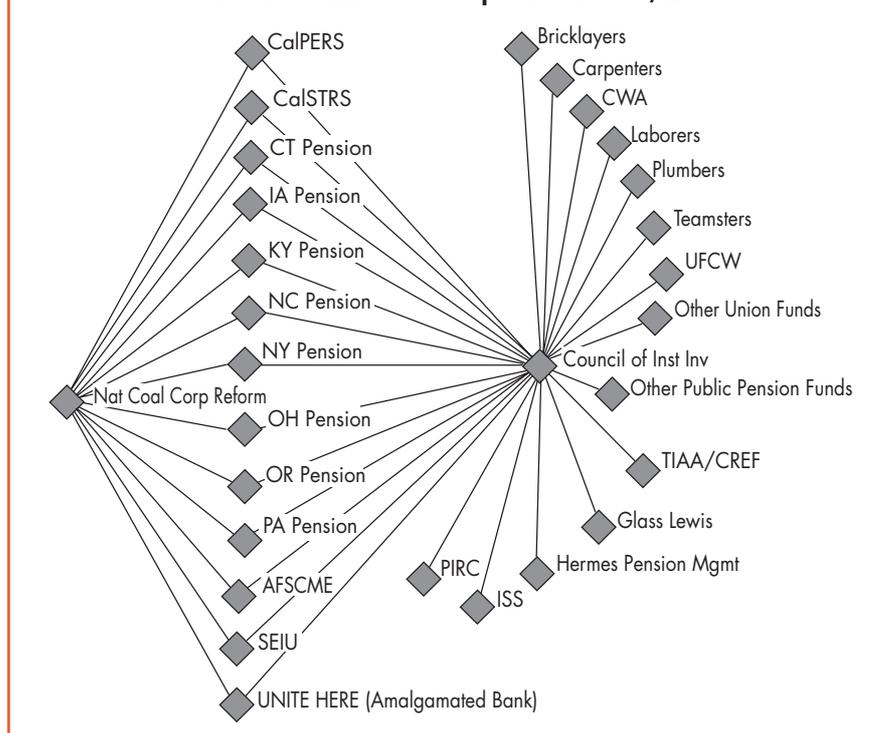
spelling out the long-term benefits of favoured workplace and environmental policies (among others) and explicitly endorsing their advancement as being consistent with the trustees' fiduciary responsibility. These moves have been accompanied by initiatives that have successfully pressured the securities regulators in the US to open the agendas of corporate shareholders meetings to more such issues and to strengthen outside influences on corporate boards of directors.

THE NETWORK STRUCTURE OF THE SRI MOVEMENT

At one level, it may be a misnomer to speak of a single, unified SRI movement, for it is comprised of several different elements. Among them are altruistic advocates of greater corporate accountability, whom we might characterize as the 'true believers'; left-thinking opponents of the corporation and the corporate-based economy *per se*, or the 'anti-corporate ideologues'; and still others who have less quarrel with the corporation itself than with their proportionate share of gains from its operation and who see the SRI banner as a flag of convenience for advancing their more prosaic interests. We can think of this latter group as the 'pragmatists'.

But at another level, it is reasonable to argue that the SRI movement could never achieve its full potential but for the combination of these different elements. From the corporate reformers it takes its moral authority. From the ideologues it takes its energy. And from the pragmatists—most notable among them union and public employee pension funds—it takes its muscle. There are aspects of self-interest that divide each of these components from the others. But, at least for the moment, there is sufficient shared interest to draw them into common cause, and their collective weight is beginning to move the system.

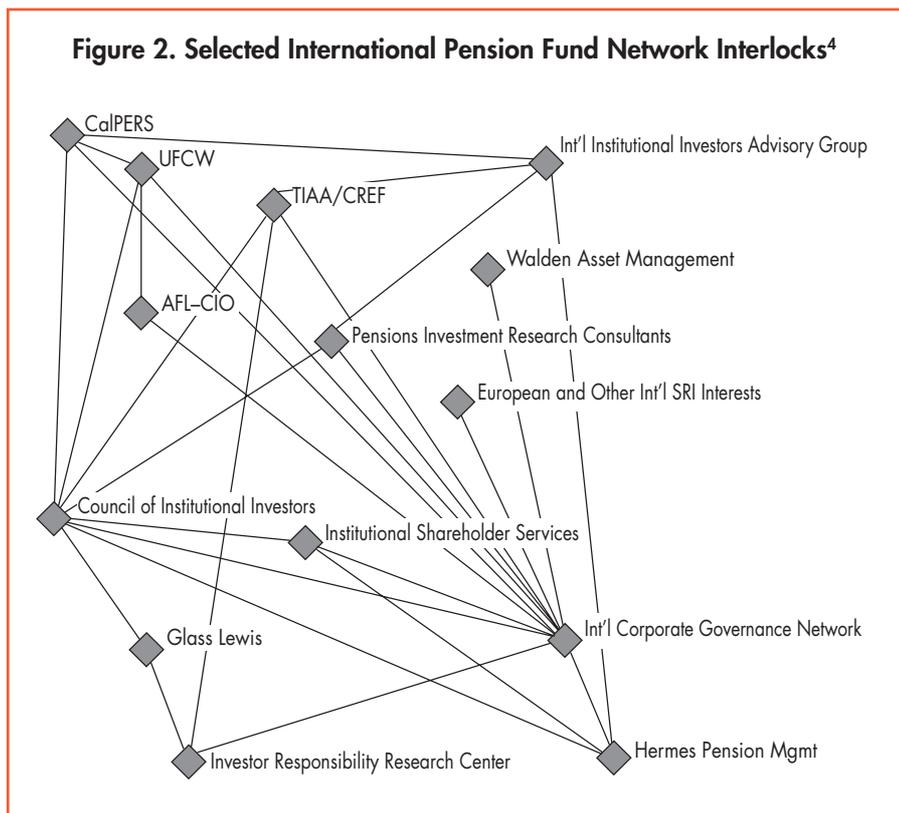
Figure 1: Membership in the Council of Institutional Investors and the National Coalition for Corporate Reform, 2004³



There is, in fact, a visible organizational structure to this movement, both within individual countries and internationally. Figure 1, for example, shows a portion of the network that links union and public employee pension funds within the US in two principal organizations. The Council of Institutional Investors (CII) was established in 1985, and today numbers among its members 130 pension funds, mostly union and public employee funds, whose assets total more than \$3 trillion, along with 125 partner organizations, some of them prime movers in the SRI movement. The group hosts conferences and other activities through which it plays a central role in advancing and legitimizing investing policies consistent with the objectives of its members. The National Coalition for Corporate Reform, established in 2003, includes a small subset of the most activist CII members, including CalPERS and several public pension systems led by activist State-level politicians.

As illustrated in Figure 2, this domestic network is connected through a series of links to its international counterparts. For example, the International Institutional Investors Advisory Group was established in March 1999 for the stated purpose of expanding country-specific corporate governance guidelines into a set of international standards. These are then advanced by the members of the Group in private negotiations and through introducing and/or supporting shareholder resolutions. Membership is limited to four organizations—CalPERS, TIAA-CREF (another influential US pension manager), Pensions Investment Research Consultants (PIRC, a UK proxy-voting advisory firm) and Hermes Pensions Management Ltd (wholly-owned management company of the British Telecom and British Post Office pension schemes). Note that all four are also members of CII. Similarly, but less exclusively, the International Corporate Governance Network (ICGN), formed in

Figure 2. Selected International Pension Fund Network Interlocks⁴



room or the courtroom, however, is yet to be determined. To the extent that SRI investors are inclined, and are able, to demonize corporations, their executives and directors, they are likely to retain the upper hand, at least in some of those venues. The challenge to corporations themselves is more difficult—to demonstrate that SRI activists do not have a monopoly on the definition and advancement of responsible corporate behaviour.

NOTES

- 1 Sarah Fuhrmann, 'Corporate Philanthropy in Unfriendly Times: The Consequences of Social Investing Advocacy', paper presented at the Conference on Socially Responsible Investing and Pension Funds, American Enterprise Institute, Washington, DC, June 2004.
- 2 For a critique of the methodology employed in these studies see Jon Entine, 'The Myth of Social Investing: A Critique of Its Practices and Consequences for Corporate Social Performance Research', *Organization and Environment*, 20:10 (September 2003), pages 1–17.
- 3 Based on CII membership lists posted at www.cii.org, 1 November 2004, and on NCCR membership as listed in Mary Williams Walsh and Jonathan D. Glater, 'Pension Fund Trustees Taking Aim at Safeway', *The New York Times*, 26 March 2004. Figures 1 and 2 were prepared using S.P. Borgatti, M.G. Everett and L.C. Freeman, *Ucinet for Windows: Software for Social Network Analysis*, Version 6.12 (Harvard: Analytic Technologies, 2002).
- 4 Based on the summary of members and their roles found at www.icgn.org/history.html on 17 May 2004 (since removed) and at www.icgn.org, 1 November 2004.

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1995 at the initiative of CalPERS and heavily influenced today by Hermes, is also devoted to developing international standards of corporate governance. ICGN links US, European and other pension funds and advisors.

An example of this networking in action—particularly between the US and the UK—is provided by a 2004 effort to force US companies to separate the roles of Chairman and Chief Executive Officer, with the former post to be occupied by a director who has never been an officer of the company in question. This is a common practice in the UK, where it is incorporated as a default in the basic law of business practice, and elsewhere in Europe, but it is uncommon in the US, where less than five per cent of companies listed in the Standard & Poors 500 Index, as an example, are governed by such a structure. Union pension funds have engaged in a campaign to advance this change at approximately 50 companies in 2004, even citing in some instances as a rationale the

fact that it is common in the UK. And this Chairman/CEO division initiative is but one of a half dozen or more similarly organic resolutions—others have to do with such matters as the cumulative voting of shares—that collectively are intended by organized labour to increase its influence with corporate boards and senior management. Even as they advance the self-interest of labour, however, the packaging and legitimacy of these efforts owe everything to the moral claims of SRI.

THE BOTTOM LINE ON THE BOTTOM LINE

The question of whether investors can do well financially and do what they regard as social good at the same time and with the same resources is an important one. Should it be answered in the affirmative, the SRI movement will grow in size and influence; should it be answered in the negative, that movement will surely wither. Whether the issue is to be resolved in the marketplace, the media, the board-

The Foccacia

IPA WORK REFORM UNIT

How the process of industrial relations deal-making works in a café latte society.

TIME and excuses are fast running out for those supposedly in charge of Australian workplaces. It has been one thing for business in Australia to call for industrial relations (IR) reform and get it, but it will be something else altogether for management to implement the required reform on the ground.

With further reform of Australia's IR legislation a key priority of the newly elected Howard Government, Australian management faces its biggest test. As the reform focus moves squarely on to management—who will no longer be in a position to hide behind the rhetoric that IR reform is 'too hard' because 'IR laws need to be changed'—two fundamental questions arise:

1. Is IR reform about the legislative environment or is it about management leadership and determination?
2. Once legislative change occurs, will the deal-makers be able to sustain their concealed agendas?

BACKGROUND

The hidden truth behind Australia's IR system is that the key venues for the IR deals struck between Australian management (including their employer associations) and unions has not been the industrial tribunals, but rather the back bars of pubs and the private cigar-and-port rooms in gentlemen's clubs. This is why many Australian companies (including their Boards, CEOs, financial controllers and shareholders) have long been sold out under the well-worn banners of 'industrial peace' and 'it was the best we could do'.

The traditional deal-making remains even though there is now a modern veneer of sophistication. Now

the players in Australia's IR Club have chosen chic coffee shops as the new place to continue their old game of IR subterfuge. Indeed, it appears that the biggest barrier to IR reform in Australia has not gone away, but now comes in the form of deal-making over a skim-milk café latte and a shared foccacia.

DISSECTING THE FORMAL VS THE INFORMAL

Although it is clear that the role of institutions which formally influence labour market and IR outcomes in Australia have changed dramatically since the late 1980s, informal bargaining practices and cultures in many industries have essentially undergone little change. In this regard, not even IR academics such as Lansbury and Kitay are 'convinced that the old model of employment relations has completely disappeared in Australia'.

Before the introduction of enterprise bargaining at individual workplaces in the early 1990s, Australia's IR system of conciliation and arbitration had deeply embedded within it a culture of deal-making between privileged third parties (aka 'industrial settlement by agreement between unions and employer associations'). This deal-making culture has been willingly moved into the workplace by much of Australia's management. Hence, a significant proportion of businesses for the last 10 years have been privately or openly surrendering to union demands that impede management capacity, reduce operational responsiveness, lower competitiveness and expand union control in the workplace. Support for this claim was demonstrated in the thorough analysis of enterprise bargaining agreements in the IPA's 'Capacity to Manage Index' Reports into the food, construction,

automotive, transport and petrochemical industries.

So even if we accept that the compromised reforms of the *Workplace Relations Act 1996* have not created the perfect environment for resisting union demands, the pre-1990 deal-making culture fostered by unions, certain managers and employer associations has continued unabated in many individual enterprises now making enterprise bargaining deals. These shared 'foccacias' are portrayed under a mix of scripted distortions along the lines of 'we can live with it' or 'as a package, it's a win-win result'. In some cases, the deal-making serves the purposes of many businesses because it can be used to prevent competitors gaining commercial advantage over, and market share from, dominant players.

SATISFYING OUTCOMES

'Satisfying outcomes' are the result of decisions which are compromises and thus have the potential to please no-one. As Stewart (1994) describes it:

Because the groups cannot organise a 'best' outcome, they reach a 'satisfactory outcome'. They are encouraged to participate in 'satisficing behaviour' as it is called. 'Satisficing' decisions are compromises, they are satisfactory, they are not too bad but they are not the best outcome for society or the economy.

There is a tendency at some levels of management to obtain only satisfying outcomes via a 'path of least resistance'. Many companies have allowed collective bargaining in the form of enterprise agreements to move beyond a mechanism for simply setting the market price of labour. Instead, collective bargaining now amounts to an assertion that the workforce should be

entitled to participate in the actual management of the enterprise concerned.

Management's failure to attach significant importance to its right to manage the enterprise adequately and instead allow for joint self-regulation between management and the workforce in the running of the business was described by Fox (1966) as an incompatible result:

In the sense that groups are mutually dependant they may be said to have a common interest in the survival of the whole for which they are parts. But this is essentially a remote long-term consideration which enters little into the day-to-day conduct of the organisation and can not provide the harmony of operational objectives for which managers naturally yearn.

In attempting to explain why management does not seek the best possible outcomes on IR matters, two issues warrant closer attention:

1. The 'best interests' of industrial organizations; and
2. Legally sanctioned anti-competitive behaviour.

THE BEST INTERESTS OF INDUSTRIAL ORGANIZATIONS

Notwithstanding their not-for-profit status, industrial organizations of employers and employees (employer associations and unions respectively) are essentially like any other business in that they seek their own on-going survival. They recognize their monopolistic power within, and symbiotic relationship with, the IR system. As Spicer (1984) acknowledges:

The whole concept of compulsory arbitration depends upon viable representative organisations of employers and employees and the quasi-legal system of arbitration, if it was to operate, required those bodies to appear before it.

In taking a pragmatic view of their own survival, employer associations, in particular, must strike a balance for themselves between their members' (or businesses') interests and the movement towards further decentrali-

zation of Australia's IR arrangements. As the CEO of a peak employer association stated at the Centenary Convention of the Australian Industrial Relations Commission (AIRC) in Melbourne on 22 October 2004 on the issue of further reform to Australia's IR system:

We are cautious in advocating radical policies [such as further award simplification and a unitary system] ... The new regime will create an increased role for the Commission ... Its role will become more important than ever ... The need to ensure the AIRC contributes to a productive and progressive IR system is not an option but a necessity.

It seems that employer associations have determined that their continued

Now the players in Australia's IR Club have chosen chic coffee shops as the new place to continue their old game of IR subterfuge

survival lies in various self-reinforcing arrangements including: the maintenance of industrial privileges and the IR system; ongoing deal-making between management and unions; and the achievement of only 'satisfying outcomes'. Employer associations (and the IR system) will survive because of their members' (businesses') highly dependent position in the IR landscape and because employer associations hold a so-called 'private government' position in the IR system. But being so dependent upon their associations means that individual businesses face a classic 'principal-agent' problem—how can a business make its employer association operate in the business's own long-term interests on IR?

LEGALLY SANCTIONED ANTI-COMPETITIVE BEHAVIOUR

Even before the introduction of the *Trade Practices Act 1974* (the TPA), it was well recognized that union privilege and labour market regulation combined to effect anti-competitive conduct in the market for goods and services. For various reasons, this issue has only been sanctioned to a limited respect under the TPA. It has provided wide scope for IR deal-making to encompass sometimes subtle, yet broad-ranging and significant, anti-competitive conduct.

Given these facts, it is not surprising that 'satisfying outcomes' in enterprise agreements, arrived at through management and union deal-making, may not be as much an object of concern for the businesses involved as was first thought. Here, IR deal-making by unions and the managements of larger or colluding businesses, under a banner such as a need to obtain 'industrial peace', can effectively exclude other business competitors from the decision-making process and its intentionally anti-competitive outcomes. From the perspective of the free market this is a complete disaster as the Trade Practices Commission itself noted:

Whilst industrial harmony may be important ... it is equally important that this objective not be pursued to the exclusion, or the undue expense of, other considerations—eg the benefits of competition.

IPA SPECIAL REPORT TO FOLLOW

This article serves as the entree to the full 'Special Report' on 'The Foccacia' to be released by the IPA Work Reform Unit on the IPA Website in early 2005. The full Report will further expand upon the themes developed in this article using actual IR deal-making case studies.

References for this article may be obtained from the IPA on request.

IPA

The 'R' Files

ALAN MORAN

Lenin's Rope-Selling Capitalists

Lenin is reported to have said that the capitalist would sell the rope to his own hangman. We see proof of his insights every day with firms in alliance with, and even funding, radical anti-business non-government organizations. These organizations are seeking to impede the market-based processes of the modern economy, processes that they—at least in the abstract—consider to be frustrating some nostalgic purity that they hope to retrieve. Firms allying themselves to these latter-day Leninists have far more mundane motives—they seek to advantage their business by damaging a competitor.

You don't need to hire a hit-man to stop new competition or raise its costs. Governments that are suckers for a 'market failure' story provide an equally fruitful approach. Thus, those businesses with the current rights to poker machines are all too happy to see embargoes on new installations. They will probably support the anti-gambling proponents of such embargoes. Similarly, marketers of pharmaceuticals are most reluctant to agree to wholesale easings of regulatory requirements when this would mean a new competitor getting into the market without having incurred all the expenses of the incumbents.

When promoting regulatory intervention, businesses, like Lenin's capitalist, are often backing organizations that see the shared target as but a staging post to a goal that would also include the demise of their business supporters. Sometimes such businesses recognize



their clash of interests but, like the Germans in the Great War who took Lenin's sealed train full of anti-Czarist subversives to the Finland Station, they feel they can control them while using them.

Green issues have proven to be a treasure-trove of corporate shortsightedness for the radicals to exploit. The Green steamroller in the forest industry has proven both too threatening and too profit-engendering for some firms to recognize their own long-term interests (the wood on which their side is battered?) As a result, we have plantation owners funding green activists to stop logging in old growth forests—removing a competitive element and seeing prices

increase. The plantation forest owners may recognize that they may be the next targets, but reflect that at least, as Green stooges, they have a temporary breathing space.

But it is the energy industries that have offered real pay dirt to the Greens. Here we find proposed new regulatory policies that impact differently on profit-maximizing firms. Energy suppliers have varying ratios of energy to carbon and face differential threats to their existence. These are graduated according to their facilities' energy/CO₂ output. Brown coal is marginally more CO₂ intensive than black coal, while gas has 30 per cent more energy per unit of CO₂. In addition, wind power is substantively carbon free (as is nuclear power, which remains demonized for other reasons).

The following table illustrates the carbon intensities of different fuels.

The wedge between gas and coal is a rich vein to be manipulated by the Greens, while marching to their ultimate goal of deindustrialization based on a solar future.

The brew is enriched by a further set of vested interests, namely

Full fuel cycle emissions kg of CO₂ per gigajoule of energy

Natural Gas (Australian average)	65
LPG	68
Coke or briquettes	133
Black Coal	91–96
Brown Coal	94
Petroleum fuels—lighting kerosene, heating oil, automotive diesel fuel	79
Solar	0

Reference: Australian Greenhouse Office Factor and Methods Workbook, December 2001

those seeking to develop new trading markets in greenhouse emissions. Many firms and wealthy entrepreneurial businessmen, such as John Hewson, have been salivating at the prospect of a new government-created market in emission reductions that must be bought by everyone in the country. They have placed their hands deep within their pockets to promote the notion.

The creation of the scarcity necessary to allow a market to be established requires the stimulation of constant tensions against the emitters of carbon dioxide.

A contemporary issue that has all the parties involved concerns the Hazelwood Power Station in Victoria's Latrobe Valley. The power station is now 40 years old but has been substantially refurbished by its UK-based owners, International Power, so that it now is a viable entity. It is responsible for supplying 20 per cent of Victoria's electricity.

As a long-established station, Hazelwood needs to tap into new coal reserves adjacent to those it presently mines. This requires some minor road relocations and some other relatively trivial modifications. Those would normally be determined by administrative means. However, several rival interests funded an attack on the business by the partly State Government-funded Environment Victoria and by the WWF.

The funders comprised wind and gas business interests, including the Australian Business Council for Sustainable Development, the Australian Wind Association and the Australian Gas Association. Some of these interests would welcome the higher prices that would emerge if Hazelwood were to be forced out of business. Others would like to see a precedent set so that there will be no new coal-based power stations. Consumers were not asked. Had they been asked, some of the busybody con-

sumerist bodies purporting to speak on their behalf would doubtless have claimed consumer support—not that they would have wanted that tested by inviting voluntary contributions from their press-ganged clients.

The State Government set up a Panel to review the issue. The *Planning and Environment Act* under which the Panel was constituted allowed it to embrace the epic issues of global warming in its investigations. Conscious that its role was

When promoting regulatory intervention, businesses, like Lenin's capitalist, are often backing organizations that see the shared target as but a staging post to a goal that would also include the demise of their business supporters

local, not global, the Panel declined to do so.

At this stage we saw the entry of another Leninist character, the 'useful idiot'. Unlike the Panel, the President of the Victorian Civil and Administrative tribunal, Justice Stuart Morris, was not so daunted about inserting himself into decision-making that requires absorption of one of the most controversial issues of our time. Indeed, Justice Morris, a former ALP Parliamentary candidate who was elevated to the bench by the Bracks Government, had already demonstrated his credentials as an environmental warrior. He gave the 2003 address to the AGM of the

Government-funded NGO, the Environment Defenders Office. In this address, he urged activists to pursue claims even when they had little chance of winning, his reasoning being that this had an effect on the community's agendas.

With that background, he threw out the findings of the Panel and required them to take into consideration the ramblings of the WWF and other eco-fanatics.

The Hazelwood case follows on the heels of a case in NSW concerning the Redbank 2 power station. This was contracted for by a NSW state owned energy business. The State Government, deciding the contract was probably unwise, funded a number of environmental groups to protest about the new plant on greenhouse and other environmental grounds. In the Redbank case, the NSW Government was keen to fabricate a case so that it could escape an unwanted contractual obligation. But in doing so, it has opened the dykes of litigation to prevent new coal-based power stations. A future administration will doubtless regret these actions.

We seem to have a considerable body of government and legal leaders who are willing to engage in dalliances with the wide-eyed green enthusiasm often brought to the family home by their children. Meanwhile, the solid business of increasing living standards, even keeping the power flowing, involves more prosaic actions. Investors who consider that government and court action is raising their costs of doing business will need to factor in greater risk premiums before embarking on new investment. The lack of such new investment will backfire on our living standards. It is all too easy to destroy the wealth-creating process but, less exciting though this may be, it is the role of government to foster it.

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

I P A

What's A Job?

KEN PHILLIPS

Business and the ALP

Why was it that in the federal election the ALP found itself confronted by open business opposition to its industrial relations policies when the ALP claimed that those policies were 'light touch'?

The reason was simple. A study of the policies showed that it would have turned the industrial relations system into a super regulator of management, making direct worker-management discussion and agreements too complex to carry out in practice.

Business has become accustomed to the Coalition's *Workplace Relations Act*, an Act with simple key features. First, it focuses on protecting worker entitlements under core awards. Then it offers workers and managers three options: collective agreements with unions; collective agreements without unions; and individual agreements (AWAs) with workers.

Further, the 28 per cent of the private-sector workforce who are not employed, but who are independent contractors, can work outside industrial relations control under commercial contracts.

By comparison, Labor policy would have done the following: expanded the reach of industrial relations into commercial contracts; pushed independent contractors into the industrial relations net; reduced the authority of the *Trade Practices Act* over commercial issues; removed the individual employment agreement option; and given unions authority over all collective agreements, removing the non-union option in all but name.

It went further. ALP policy proposed a new but unexplained wages-setting system which included reintroduction of paid rates awards for the public service. It then tied govern-

ment procurement policy to its industrial relations policy.

The federal ALP policy closely resembled New South Wales' industrial relations legislation, which itself has run into controversial difficulty.

The Carr Government's 1996 industrial relations legislation is legally radical because it gives the NSW Industrial Relations Commission power to rule over commercial issues. The simple rewording of the purpose of NSW's Act, changing 'industrial disputes' to 'industrial matters', coupled with unfair contracts clauses, has resulted in the NSW IRC ruling over commercial tenancy leases, franchise agreements and even looking to rewrite business sale agreements retrospectively.

NSW legislation enables the writing of clauses into enterprise agreements that stop the use of labour hire, forces unrelated companies into union agreements, delivers control of training to union bodies, requires non-unionists to pay unions fees and facilitates committees that usurp management authority. The list goes on.

Non-union Enterprise Bargaining Agreements (EBAs) are blocked in NSW because initiation of direct employee-employer discussion requires union notification and allows unions the right to interfere and object. Federal ALP policy followed NSW.

Federal Labor also proposed Queensland-style legislation that denies independent contractors their right to be independent contractors. In Queensland, this resulted in a corporation being declared an employee and the President of the Queensland Commission declaring the provisions unworkable. There are suggestions that these provisions breach International Labor Organisation principles.

Finally, federal ALP went further than NSW and Queensland where, un-

der the terminology of 'good faith bargaining', it would have been illegal for businesses not to enter into industrial negotiations with a union and would have given the Commission the power to force agreements onto unwilling businesses. In addition, the Commission would have had the power to force companies to divulge commercial information.

The package was locked together by downgrading the competition authority of the *Trade Practices Act* to stop secondary boycotts. This was consistent with federal ALP policy to replicate the NSW outworker legislation which subjects commercial transactions in specified markets to industrial relations legislation and which fixes prices in those markets.

Australia's business associations 'twigged' to the ALP agenda, understood the implications and thus opposed it.

When Western Australia introduced legislation of this type, business associations led the community in a rush to Howard's EBAs and AWAs. South Australia is attempting legislation which parallels federal ALP policy.

Normally, industrial relations does not figure highly as a decisive factor in voters' choices. But the Liberal Party has stated that their post-election polling showed that, this time, industrial relations featured significantly, particularly with the small business sector.

Does this election signal the collapse of the traditional business-government-union deal-making that has long been at the core of how Australia manages business? It's hard to say. But there is certainly a fundamental shift indicating that business no longer sees deal-making with unions as vital to its future.

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

Bush's Victory is Bad News for Tories

Well, I was wrong last time. Tony Blair decided against a snap election. Instead, straight after the Labour Party's annual conference in October he announced that he would serve a full third term as Prime Minister (on the safe assumption that Labour will win the election now expected next May).

As with many of Mr Blair's statements, this needs unravelling. It's possible that Tony Blair never actually tells a lie, but it's not safe to take what he says at face value. The first point of interest is that the announcement came *after* the party conference—perhaps because Mr Blair didn't trust the party faithful to welcome the news.

It was a direct snub to his rival and presumed successor, Gordon Brown, who believed that Mr Blair would stand down in his favour sooner rather than later. It was no coincidence that it happened when Mr Brown was overseas and unable to respond effectively. Some Brownites said Mr Blair was like a Third World politician staging a coup while his most powerful opponent is out of the country.

Mr Blair's friends put it about that the idea was to prevent in-fighting over the succession: without the announcement, people would have assumed that he would step down after an election next summer and the Labour factions would have spent the next six months fighting each other rather than the other parties. But it actually exacerbated the speculation: was Tony planning to stay on longer so as to groom a successor in place of Gordon?

Mr Blair next announced a cabinet reshuffle that favoured Blairites



over Brownites. He appointed one of his closest supporters, Alan Milburn, to co-ordinate next year's election campaign—a job which Mr Brown did in 1997 and 2001 and expected to do a third time. This of course fuelled the speculation about the succession. He recalled another close friend, the twice-disgraced Peter Mandelson, from the outer darkness to serve as Britain's nominee on the European Commission. Gordon and Peter have hated each other ever since Peter supported Tony instead of Gordon for the leadership in 1994. Gordon and Alan have a history too, culminating in Gordon's gratuitous destruction of Alan's health service policy last year.

Since then, Mr Blair's confidence has been further strengthened by the Australian and American election results, which prove that Iraq need not be electorally fatal. Nevertheless, his support for President Bush is a grave affront to Labour traditions and a serious embarrassment for most Labour MPs. Mr Bush has made himself and the United States extremely unpopular here, so much so that Americans find themselves being harangued at dinner parties and insulted in the streets. As a result, Mr Blair may have been the only member of

the Labour Party who genuinely wanted a Republican victory.

But paradoxically the strength of anti-American feeling is causing more problems for the Conservatives than for Labour. It's not just Labour supporters who are outraged by the Bush administration's incompetence and abuses in Iraq. Probably most Conservative MPs hoped that Senator Kerry would win; some of them said so publicly and displayed Kerry posters in their offices.

Relations between the Conservative leadership and the White House were already somewhere between strained and non-existent. One gets the impression that as long as Tony sticks up for George, George won't give house room to anyone who's trying to do Tony down—especially if they also criticize George himself.

Being frozen out of the Oval Office by the party that is their natural ally robs the Tories of an important element of credibility as a government-in-waiting. It also strengthens anti-American feelings and, along with the general unpopularity of the administration, tends to discredit by association the ideas of free enterprise and small government.

That matters. Labour has recruited more than 500,000 additional public servants. Total government spending has risen from 39.8 per cent of GDP in 1997 to a projected 43.3 per cent in 2005 (excluding massive off-balance-sheet spending via the 'private finance initiative'). If the Conservatives lose their commitment to lower spending, we'll be in real trouble.

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



I well recall how, on the first day of the serious, large scale, televised bit of Gulf War 2, I watched ... the unfolding story on BBC News 24 and on nothing else. At first I was uncomfortable, as the allied forces were sucked forwards from catastrophe to catastrophe into the beckoning quagmire, like horror film extras emerging from their graves. It took me an hour or more to work out that what the pictures were actually showing (as opposed to what the BBC said they were showing) was an astonishingly rapid and almost completely casualty free (on the allied side) advance on Baghdad.

— Brian Micklethwait,
www.samizdata.net/blog

My experience with our own ABC's AM programme was the same. Finally, for half a week towards the end of the war, I just switched it off. The period of angst between its 7am wakeup message, and hitting the Net at 9am to find out what was really happening, became just too intense to bear.

So I have some sympathy for former Federal Communications Minister Richard Alston's attempt to raise allegations of bias over AM's coverage of the war. Unfortunately, though, the toolbox of misrepresentation available to the media is too well-stocked to be comprehensively exposed through specific complaints.

Certainly, words of bias can sometimes be identified, such as when the Disapproved-of Party's statements are relayed as 'claimed', 'admitted' and the like, whereas the Approved-of Party's words were merely 'said'.

Sometimes clear factual fault can be found, as with the Ameri-

can CBS TV network's pre-election use of forged documents to support its claim that President Bush had been a naughty Air National Guardsman three decades ago.

But generally the most powerful tool with which the media can tip the news is through story *selection*. The technique is simple. You have two stories competing for air time. One concerns improvements in, say, Iraq. The other concerns some alleged misbehaviour by Coalition troops in Iraq. You run the latter. Repeat this nearly every day for a year and a half, and even though every word broadcast may have been truthful, the overall result is completely unbalanced.

SAVING YOURSELF

Of course, that's not to say that every word of these negative reports is accurate. Reporters operating in dangerous areas can choose one of three options: they can offend the forces of the West, they can offend the enemies of the West, or they can offend both. A reporter can be confident, though, that he or she will not be decapitated, nor even abused, Abu Ghraib-style, for offending the West. As the recent narrow escape of SBS reporter John Martinkus from the beheaders illustrates, not offending the other side can be important for one's longevity.

An Honest Reporting.com examination of this phenomenon, 'Palestinian Intimidation of the Press', concludes that with regard to the Palestinian conflict, a dangerous environment for reporters can indeed skew the news. Go to:

[www.honestreporting.com/
articles/reports/
palestinian_intimidation_of_the_press.asp](http://www.honestreporting.com/articles/reports/palestinian_intimidation_of_the_press.asp)

It would be surprising if the same factors weren't operating also in Iraq.

While at Honest Reporting, check out its biography on the recently deceased Egyptian, Yasser Arafat. It would seem that, under the Article 5 of the Palestinian National Charter, Arafat was not Palestinian:

The Palestinians are those Arab nationals who, until 1947, normally resided in Palestine regardless of whether they were evicted from it or have stayed there.

[www.mideastweb.org/
plocha.htm](http://www.mideastweb.org/plocha.htm)



DEFINING AUSTRALIAN MEDIA BIAS

An Australian body called the Media Study Group has reported on bias in *The Age* newspaper using the Arab-Israeli conflict as its crucible. The methodology was to examine all news (not opinion) articles in *The Age* on this conflict for a two-month period (June–August 2003), chosen in advance, and compare them with a selection of journalistic codes and reports from other publications. In the 66 relevant articles examined, they found 210 'violations' in 54 articles. 2.4 per cent of the violations were anti-Arab, 97.6 per cent were anti-Israel.



much further to the Left than Fox was to the Right of the Congressional median.

mason.gmu.edu/~atabarro/MediaBias.doc

This paper doesn't seem to have a permanent home, so if this link fails to work, Google 'groseclose.pdf'

Not surprisingly, Australia's own media watcher David Marr considers Fox to be an extremist outfit. Recent remarks by Marr include these two (my emphasis):

Outfoxed, Rupert Murdoch's War on Journalism is a very hostile American documentary about Murdoch's hyper-patriotic Fox News Network.

www.abc.net.au/mediawatch/transcripts/s1222362.htm



That's just a snippet from a great week of the [Doodlesbury] strip already published over in America following the release of a damning documentary about Rupert Murdoch's rabid right Fox News.

www.abc.net.au/mediawatch/transcripts/s1172443.htm

BRIEFS

A study by the Center for Media and Public Affairs in the US suggested that 'John Kerry is getting the most

favorable network news coverage of any presidential candidate in the past quarter century':

www.cmpa.com/documents/04.10.29.Kerry.Final.pdf

And, as reported by the Media Research Center, polls suggest that the US public agreed that the media was biased in favour of Kerry over Bush:

www.mrc.org/cyberalerts/2004/cyb20041101.asp#3

And don't forget the Blogs. Three have special focus on our own ABC, or United Kingdom's BBC:

www.abcwatch.blogspot.com

biased-bbc.blogspot.com

www.lastnightsbbcnews.blogspot.com

ABC NEWS RADIO

Don't expect a freedom from bias, but there is in fact a reasonable free-to-air radio station. News Radio exists primarily to broadcast Parliament, but between sittings (that is, most of the time) and via the Web even during sittings, it delivers enormous quantities of news stories.

Since much media skewing is due to selection bias, the sheer volume and range of sources tend to reduce blatant distortions. Listen on-line, or get the frequency of the radio station for your area, at:

www.abc.net.au/newsradio

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.

Around the Tanks is sourced from a selection of publications detailed in The Heritage Foundation's *The Insider*, a monthly compilation of publication abstracts, events and news from around the world's think-tanks. (Back issues of *The Insider* can be viewed at www.heritage.org/insider)

THE PRODUCTIVITY GAP

by Bruce Bartlett
www.ncpa.org/edo/bb/2004/20040811bb.htm

Europeans are frustrated. They have been behind the United States economically for years and thought this was due to lack of economic integration. So they created the European Union, with a common currency and virtually free mobility of goods, capital and labour throughout the continent. Yet Europe continues to lag. The United States had a real gross domestic product per person in 2003 of \$34,960 (in 1999 dollars); this is well above every European country. The most productive European country, Norway, has a per capita GDP of just \$30,882 (converted using purchasing power parity exchange rates). The major countries of Europe are even further behind: the United Kingdom (\$26,039), France (\$25,578), Italy (\$24,894) and Germany (\$24,813). In other words, Europeans produce no more per year than Americans did 20 years ago. And they are not catching up.

EXIT STRATEGY: FREEING THE UK FROM EU CONTROL

by Marcus Watney
www.brugesgroup.com/mediacentre/comment.live?article=243

The continent of Europe changed on 10 June 2004. On that day the frustration of ordinary people at autocratic rule from Brussels finally made itself felt. The surge in the Eurosceptic vote may have been fuelled by different priorities in different lands (the desire for outright independence in Britain, concern at the cost of modernization in the Czech Republic, alarm at Germans

buying farms in Poland, and hostility to unfettered immigration in Greece), but it was still a firm vote against integration. Yet, while the man in the street may be very clear about what he does not want, he is not so certain when it comes to positive alternatives. Again and again while canvassing, the same response is met: the EU is no good, but we're stuck with it—we're in too deep now to get out. It is this fatalism that this paper seeks to address by exploring the real practical alternatives to the European Union and assessing the impact of withdrawal.

THE UNIVERSAL HUNGER FOR LIBERTY

by Michael Novak
www.aei.org/publications/bookID.793,filter./book_detail2.asp

As the United States pursues a 'forward strategy of freedom' in the greater Middle East, Novak has written an examination of the desire for liberty that stirs not only Christians and Jews but increasingly many Muslims as well. Recognizing that liberty is endowed in all human beings by the Creator, Novak traces the hundred-year growth of terrorism in dictatorships that have little regard for human dignity and personal liberty. He considers the conversation the West must have with Islam regarding the culture, economics, and politics of liberty, but he also notes the self-destructive tendencies of secularism in western democracies. This book is an attempt to 'map' some of the great landmarks of the coming century in culture, politics, and economics. It graphically depicts many serious threats to humankind, and especially to liberty, yet it is a hopeful book.

CONSERVING BIODIVERSITY THROUGH MARKETS: A BETTER APPROACH

by R. David Simpson
www.perc.org/publications/policyseries/biodiverse.php

During the past two decades, international conservation groups have attempted to save habitats by combining conservation with development. They have supported market activities such as eco-tourism, forest product collection and marketing, and pharmaceutical research on natural organisms. However, many have been disappointed with the results. In this paper, David Simpson, a PERC Julian Simon Fellow, offers a market approach that he believes is more cost-effective: straightforward purchase of the desired conservation. Only by creating a new market in the conservation of natural habitats will the incentives for conservation be direct and effective.

MAD COWS, SCIENTISTS AND POLITICIANS

by Iain Murray
www.cei.org/gencon/029,04128.cfm

Eight years ago, British health officials announced the arrival of a new form of 'Mad Cow Disease.' The panic that ensued decimated the British beef industry and cost the taxpayers billions. But a recent study reveals that a previously unrecognized epidemic of Mad Cow occurred at the same time in France, with few fatalities. In this article, Iain Murray relates how scientists, in an effort to pacify the British government, refused to keep an open mind, and allowed politicians to popularize the hypothesis that thousands of Britons would die from eating infected beef. When this prediction proved false,

scientists lost their credibility—a continual problem that results from too close an association between science and politics.

ECONOMIC FREEDOM OF THE WORLD: 2004 ANNUAL REPORT

by James Gwartney and Robert Lawson

www.fraserinstitute.ca/shared/readmore.asp?sNav=pb&id=681

The key ingredients of economic freedom are personal choice, voluntary exchange, freedom to compete, and protection of the person and property. Economic freedom liberates individuals and families from government dependence and gives them control of their own future. This study is a comprehensive index of economic freedom in the world. The 2004 annual report explores the evolution of economic freedom over the last quarter century and the impact of economic freedom on people's lives.

THE COST OF GENERATING ELECTRICITY

by Royal Academy of Engineering
www.raeng.org.uk/news/temp/cost_generation_report.pdf

In this study, the United Kingdom's Royal Academy of Engineering shows that renewable sources of energy such as wind are twice as expensive as traditional fossil fuels and nuclear energy. The inherently unreliable and intermittent nature of wind as a source for power renders it unrealistic at the current state of technology, as costly provisions must be made to provide power through other means when the wind fails. The academy included in its calculations such factors as the cost of decommissioning for nuclear generation and the costs of mitigating carbon dioxide emissions for fossil fuels. The study focused on the actual costs of producing power, not on the

costs paid by consumers after market influences.

THE ROLE OF BUSINESS IN THE MODERN WORLD

by David Henderson

www.iea.org.uk/record.jsp?type=publication&ID=248

It is now a widely held view that a new era has dawned in which businesses must adopt a new conception of their mission, purpose and conduct by endorsing and implementing corporate social responsibility. Henderson argues that now, as in the past, the primary role of business is to act as a vehicle for economic progress. This role depends upon business enterprises operating within the framework of a competitive market economy. If we ask businesses to achieve broader social goals, we risk undermining the very system in which business activity leads to opportunity and prosperity.

THE SCIENCE ISN'T SETTLED: THE LIMITATIONS OF GLOBAL CLIMATE MODELS

by Kenneth Green, Tim Ball, Steven Schroeder

<http://www.fraserinstitute.org/shared/readmore.asp?snav=pb&id=676>

Computerized models of the earth's climate are at the heart of the debate over how policy should respond to climate change. Global climate models (GCMs)—also called general circulation models—attempt to predict future climatic conditions starting with a set of assumptions about how the climate works and guesses about what a future world might look like in terms of population, energy use, technological development, etc. Analysts have pointed out, however, that many of the assumptions used in modelling the climate are of dubious merit, with biases that tend to project catastrophic warming, and have argued that climate models

have many limitations that make them unsuitable as the basis for developing public policy. This paper examines two major limitations that hinder the usefulness of climate models to those forming public policy.

THE POLITICAL ECONOMY OF INTELLECTUAL PROPERTY LAW

by William M. Landes and Richard A. Posner

www.aei.org/include/book_print.asp?bookID=777

This monograph seeks to explain the expansion of intellectual property law over the last half century, focusing in particular on the rapid growth that began with the 1976 Copyright Act. In so doing, it explores a fundamental, unresolved issue in the theory of regulation: why some kinds of regulation have increased dramatically over this period while others have virtually disappeared.

COMMON SENSE SCHOOL REFORM

by Frederick M. Hess

www.aei.org/publications/bookID.633/book_detail.asp

In this book, an education analyst presents a comprehensive and coherent approach to the challenge of improving our schools. He argues five integrated principles are needed—increased accountability of students, teachers, and administrators, more choice and flexibility, greater openness in teacher recruitment, better training of administrators in management and leadership, enhanced use of technology to enable students, teachers, and management. Hess applies lessons from successful organizations to the educational sector and argues that educators, like everyone else, are more effective when performance is evaluated, success is rewarded, and ineffective workers are sanctioned.

I P A

Compiled by IPA staff, columnists and consultants ...

MANNE FOR ALL SEASONS

Robert 'Change-Agent' Manne was the winner of *The Bulletin Magazine's* 'Smart 100' in the 'society' category. The judging panellists couldn't look past Manne when selecting a winner because, they said, 'his writings and advocacy have shown us all that ideas and words can be as powerful a force in our community as deeds' and that we need 'strong community leaders'. Over the last 15 years, Manne has been on the losing end of every major social reform debate in Australia: economic liberalization, privatization, reconciliation, the republic, refugees, Afghanistan, Iraq and, most importantly, Howard. Do they mean 'Smarter 100' winner?

PIECE PRIZES

Arundhati Roy was given the 2004 Sydney Peace Prize in November. This followed the previous year's peace-loving winner, Palestinian activist Dr Hanan Ashrawi. Roy told her Australian audience to side with the Iraqi resistance—the ones blowing up cars and disrupting the democratic process as hard as they can. She had already branded Bush a terrorist, and Howard was just a part of a grotesque, disgusting cabal. How will she spend her \$50,000—courtesy of the Sydney City Council—prize money? On our Aborigines. Not for communities as charity, mind you, but for 'political work'. She said she would be asking writer-activist John Pilger for advice.

BEYOND PETROLEUM?

As we all know, BP stands for Beyond Petroleum, the new, clean green company that is looking to a carbon-free future. But with the price of oil going north of \$US 50

a barrel and enough hydrocarbons in the ground to last for many decades, this is leaving oil companies dripping with cash. It is not surprising, therefore, although a tad hypocritical, to hear Lord Brown, head of 'green' BP gushing that without petroleum 'the world would be a dark, cold and miserable place'.

PROTECT THE LAZY?

In Britain, businesswoman Beryl King was told by the Southampton Jobcentre that her advert for warehouse workers discriminated against lazy people. She had the temerity to ask for 'warehouse packers who must be hard-working and reliable'. The Jobcentre is investigating. A spokesman said: 'Words such as 'hardworking' can be accepted if used with a clear job description.'

TURKMEN DRIVERS FACE UNUSUAL TEST

In most countries, passing a driving test is determined—unsurprisingly—by the candidate's ability to drive. But in Turkmenistan, knowledge of the highway code and control of the steering wheel are no longer enough. Candidates now have to pass an exam in President 'for life' Niyazov's spiritual writings, contained in a book named the *Ruhnama*. 'The exam in the *Ruhnama* is needed to educate future drivers in the high moral principles of Turkmen society', an official told the AFP news agency.

ARE WE GETTING TOO OLD?

In the UK, home of The Beatles, the song 'When I'm 64' has been banned; or parts of it at least. The 80-strong Hart Male Voice Choir was due to perform the song in Hampshire as a joint number with

singers from a local primary school. But the teachers asked for the line 'birthday greetings, bottle of wine' to be dropped because one of the youngsters is a Jehovah's Witness. This group does not celebrate birthdays and the teachers don't want to upset the child. Because changing the words would breach copyright, the choir will stop singing while the piano plays on.

WHICH WITCHES?

US Puyallup School District officials announced last week that Halloween festivities would be cancelled in order to stop losing instructional time and to avoid offending believers in the Wiccan religion, sometimes known as witches. Wiccans who have met with school officials have not asked for cancellation of Halloween events, but have said that they are offended by images of witches with pointy noses flying on broomsticks.

PROTECTING NON-EXISTENT SPECIES

A whopping 40 per cent of species listed in the US Endangered Species Act are not actually species. For example, the Preble's Meadow jumping mouse was listed as an endangered species in 1998, based on a 1954 study. Later analysis revealed that the mouse never really existed, but instead was a 'cousin' to a non-endangered species. Before this discovery, however, builders, landowners and local governments in the Great Plains spent \$100 million on preserving the mouse over six years, and the US Fish and Wildlife Service set aside 31,220 acres of land in Colorado and Wyoming as critical habitat for the mouse.

IPA

Book Reviews

A Capital Document

John Roskam reviews

Conversations with the Constitution: Not just a piece of paper

by Greg Craven

(UNSW Press, 2004, 250 pages
\$34.95)

'Most books about the Australian Constitution are as dense as the more impenetrable physical elements, and contain about as many laughs as a jumbo jet disaster.' It is with this in mind that Greg Craven, Professor of Government and Constitutional Law at Curtin University, has written something that is perceptive, thoughtful and convincing. And yes, it even provides a few laughs.

Craven's argument is simple and has profound consequences. Put simply, it goes like this. The Australian Constitution has been central to establishing the nation as a liberal and successful democracy. Certainly Australia isn't perfect, but no society is. But we are still more perfect than most. The Constitution is more than a set of words—it embodies a set of beliefs and conventions which, taken together, have served the people well for over a century. Alter the Constitution, and you alter Australia.

Craven pleads for the community to have a better understanding of the Constitution. Perhaps if there were, the High Court would not have been allowed to get away with some of its constitutional vandalism, particularly in relation to the destruction of federalism. Although the electorate intuitively recognizes the merits of the Constitution as it is—witness the failure of numerous referenda—no such recognition has put a brake on the untrammelled creativity of judges. The

Constitution has democratic legitimacy. So do our State and Federal MPs. Judges don't.

Conversations with the Constitution is more than just an historical analysis of the benefits of the Constitution. What will infuriate Craven's confrères in law schools around the country is his demolition of all of the reasons usually suggested as to why High Court judges should be free to do with the Constitution as they please. What Craven identifies is that when the Constitution's critics bemoan its failings, it is only because the Constitution can't be used, try as hard as some might, to turn Australia into a central-

His point is that the decision to transform Australia into Scandinavia is one that requires a democratic vote. It is not within the gift of judges

ized, semi-socialized, rights-for-everyone (and everything) nirvana. The point Craven makes is not about whether Australia should or should not be turned into such a place. His point is that the decision to transform Australia into Scandinavia is one that requires a democratic vote. It is not within the gift of judges.

Inevitably, those who disagree with Craven—most legal academics and most of the political Left—will interpret his position as merely supporting the *status quo*. Unfortunately, nothing could be further from the truth. Craven's suggestion, for example, that an elected parliament is the best guarantor of rights, could once quite rea-

sonably have been characterized as being 'conservative'. No longer.

Sadly, in the context of the damage that has already been wrought to the Constitution, it is Craven's suggestion that it should be interpreted in accordance with the intentions of the Founding Fathers that is 'radical'. There would hardly be a law student in the country who hasn't been inculcated by their lecturers in the belief that only judges can protect human rights. As Craven says about judges having such powers, 'It is difficult to imagine a group of humanity outside an enclosed convent or asylum less suited to undertake the business of radical constitutional renovation'.

Craven covers the gamut of constitutional issues ranging from citizens initiated referenda—this is the 'Australian constitutional equivalent of streaking at a Test match: appealingly audacious, but presenting numerous ancillary problems'—to the country becoming a republic—the reality of the Australian monarchy is that, whatever its symbolic significance, it has the practical importance of *feng shui* in the daily functioning of Australian democracy'.

The only possible problem with *Conversations with the Constitution* is that it is endorsed by Michael Kirby, the High Court judge who in recent times has probably done the most to frustrate the constitutional intentions of the Founding Fathers. In this case, however, Kirby is definitely correct in his assessment of Craven's work—'A blunderbuss of a book ... from his larrikin prose may emerge a heightened interest in the Constitution which, for most Australians, is a black hole of ignorance and indifference.'

John Roskam is a Research Fellow at the Institute of Public Affairs and a former Executive Director of The Menzies Research Centre in Canberra.

I P A

Strengthening Failing States

Gary Johns reviews

State Building: Governance and World Order in the Twenty-First Century

by Francis Fukuyama

(Profile Book, 2004, 194 pages)

In recent times, there has been a trend to weaken overly powerful states, either because these states were internally tyrannical—their scope for intervention in daily life was too great—and/or they were externally aggressive. More recently, and partly as a result of the collapse of communism, the opposite is occurring: some states are too weak and need to be built up. Fukuyama's book on state building, 'the creation of new government institutions and the strengthening of existing ones', is concerned with the latter trend. Fukuyama argues that state-building is one of the most important issues for the world community because weak or failed states are the source of many of the world's most serious problems, including poverty, AIDS, drugs and terrorism.

Does Fukuyama have the recipe for state-building? Unfortunately, no. Nevertheless, he has some powerful insights and dishes out a gentle clip under the ear for a few 'dogooders'.

When the 'coalition of the willing' decides to invade Afghanistan or Iraq, or multilateral agencies decide to assist in sub-Saharan Africa, what can they transfer that will stick? After all, the number of nations that have prospered after the withdrawal of foreign advice and support are exceedingly few: arguably, the British in India, Singapore and Hong Kong. The US has occupied variously Cuba, Haiti, the Dominican Republic, Mexico,

Panama, the Philippines and South Korea, but only the latter two have achieved long-term economic growth.

With such a record, the international financial institutions, international donors, and NGOs have to be cautious in raising expectations about the long-term effectiveness of 'capacity building'. More importantly, they have to ensure that they do not destroy institutional capacity in the developing countries. Fukuyama argues that almost every African country had better institutional capacity at independence than they possess to-

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day. One reason is that the more services are provided by outsiders, the more the local capacity to provide withers. We see this phenomenon in our own Aboriginal communities. It appears that the donor has to make a choice between delivering services, drugs, food and so on, or delivering services to the local responsible authorities to enable them to work with their consumers to deliver the services. In short, NGOs' taking over the delivery of government service (even corrupt ones) destroys government capacity.

In a detailed discussion of organization theory and public administration, Fukuyama concludes that 'there are no optimal organizations', which leaves the business of transferring knowledge about capacity-

building in a bit of a pickle. There are some activities, such as central banking, where technocrats, involved in a small number of highly specific decisions can make a great deal of difference. Flying in '10 bright bureaucrats' can help. The same cannot be said for activities where a very large number of decisions of relatively small consequence have to be made, such as the law and education. These are the most difficult areas to import ideas and designs for public administration. For example, the elimination of patronage and corruption in the public service is a basic goal, but there are many ways to achieve it.

There is a delightful précis of the difference between Europe and the US on the question of when to intervene. Fukuyama follows Robert Kagan's explanation, that Europeans believe that they are living at the end of history, in a largely peaceful world governed by international law where Realpolitik has become obsolete. Americans believe that they are still living in history and need to deal with traditional power politics to tackle threats. The 'Europeans are half right', they have created an end-of-history world for themselves within the EU, but it is ultimately guaranteed by American military power!

The book needs to be more adventurous and speculative about what may work, and what will not. He mentions William Easterly's observations of the follies of World Bank/IMF debt forgiveness and the dangers of poor incentives (see *IPA Review*, March 2003), and de Soto's marvellous insights on the need for secure property rights. Beyond that, his unique observations may be that the problem is not solvable without real power to intervene, but that over-enthusiastic transfer of Western norms may do more harm than good.

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REVIEW

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The Inevitability of the Global

David Robertson reviews

Why Globalization Works

by Martin Wolf

(Yale University Press, 2004; 400 pages; \$56.95)

Anyone who has enjoyed and been stimulated by Martin Wolf's incisive analyses of international economic events in *The Financial Times* over the past 20 years or so, will not be surprised by the quality and scope of this fluent and comprehensive volume. One might say that this is the last word on the economics of globalization. Indeed, quotations by eminent economists on the dust jacket of this book say exactly that: '... a definitive statement of the case for market-based globalization' (Lawrence Summers); and '... a deeply reasoned and cogently explained case for [globalization's] inevitability' (Kenneth Rogoff).

The book is divided into two roughly equal parts: 'Why a global market economy makes sense' and 'Why the critics are wrong'. It concludes with a short chapter on the way to a better world. While reader-friendly, the volume is extensively referenced and well-supported with explanatory notes for the inquiring reader.

Wolf's justification of globalization is impressive and flawlessly expressed. He defines globalization as 'the integration of economic activities, via markets, driven by technological advances and policy changes'. Prosperity depends on the balance between markets and the state; that is, the institutions and policies provided.

He describes the rise and fall, and rise again, of international economic integration over the past 150 years, using carefully assembled statistics and charts to support his arguments. The confrontation with anti-globalization forces since late in the 1980s has educed concerns about another retreat.

Though less ominous than the nationalism, backed by communism and fascism, that destroyed global integration in the twentieth century, this threat from anti-globalizers is persistent, becoming organized on a global scale and employing alarmist propaganda.

The first half of the book explains why liberal economic strategies make sense. History reveals that market competition, the rule of law and stable governance promote economic development, prosperity and political security. Since the time of Smith, Locke and Hume, market economics and liberal policies have faced strong hostility from non-economists (see W.O. Coleman, *Economics and Its Enemies* (2002)). The revival of anti-economics in the past decade or so, however, is surprising because economic growth, stability and decreasing poverty in many countries have been unprecedented.

Writing off the outstanding debt of the poorest developing countries will do little to assist their long-term development if changes are not made to their domestic institutions and policies

Liberal national economic systems depend on trans-border transactions (trade and investment flows, transfers of technology and migration) to optimize benefits, and that depends on policies in other countries too. International institutions have supported inter-governmental co-operation since World War II. Wolf focuses attention on the Bretton Woods twins—the IMF and the World Bank—and the WTO (formerly the GATT).

These institutions set rules and promote international economic relations using the authority of negotiated inter-governmental agreements. These agencies have become targets for critics of globalization who believe that their constitutions should be changed to increase the influence of non-government organizations (NGOs) and supplicant developing countries' governments.

The criticisms of globalization are examined in the second half of the book. Overtly disparate and contradictory groups believe that government and international policies should be directed to achieving 'desirable' social and political objectives, rather than leaving progress to markets. These anti-globalizers divide into two types: old-fashioned, anti-market groups comprising labour unions, trade protectionists and nationalists; and single issue, idealistic, NGOs pursuing environmental protection, human rights, consumer interests, lobbying for social and economic development in poor countries, etc. They are united only by their desire to achieve changes in the management of economic forces and to redistribute the benefits of economic progress according to their designs. Some of the first group would revert to local or national self-sufficiency and forgo economic prosperity altogether; these troglodytes include old-fashioned socialists, neo-Marxists and 'localisers' opposed to international commerce of any kind. These sentiments have widespread support where the search for 'egalitarianism' remains strong, in spite of rising prosperity in most parts of the world.

Many NGOs want to establish new forms of global governance, to replace 'representative democracy', where government representatives sit on international councils, with 'participatory democracy' where any party can attend. The aim is to by-pass national administrations and to increase the role of unelected, self-appointed, non-transparent NGOs in the administration of international agreements on the environment, the financing of development programmes, trade rela-

tions, etc. All contain the prospect of collectivism, with little hope of decisions being reached by consensus. Unfortunately, few democratic governments are prepared to confront or contradict NGOs.

Most NGOs' proposals for correcting perceived 'injustices' ignore their 'second round' consequences. For example, raising tariffs to protect industry X in a developing economy may encourage development, but it raises the price of X to domestic users and consumers, draws resources from elsewhere in the economy and reduces real incomes. It has ramifications across the economy that are not taken into account by advocates of reviving the ill-reputed 'import-substitution strategies'. Similarly, writing off the outstanding debt of the poorest developing countries will do little to assist their long-term development if changes are not made to their domestic institutions and policies. Permanent benefit depends on policy reform to remove civil unrest and corruption.

Wolf reduces the anti-globalization arguments to five main topics (chapters 9–13). He finds there is little justification for NGOs blaming globalization for injustices, poverty, and failure of economic development or environmental damage.

- Poverty and inequality are alleged to be increasing, but analysis of relevant statistics does not show that. Even using unsatisfactory indicators, the number of people living on less than \$2 per day (a World Bank measure) has decreased sharply since 1980, because of rapid economic growth in China, India and other Asian economies. When living standards are stretched to include life expectancy, health and education, the improvement is striking.
- Liberal trade and the WTO symbolize everything people dislike about globalization. Imports threaten jobs; development programmes are blocked by WTO rules; primary commodity exporters are exploited. The WTO needs reform, but Wolf wonders whether

so many differences can be reconciled.

- Critics of economic integration focus attention on multinational enterprises (MNEs), which they regard as the malevolent force behind globalization. Wolf explains that this misconception arises from misunderstandings and false propaganda. MNEs facilitate globalization because they integrate markets, but they remain subject to national laws and market competition too.
- Many NGOs believe that globalization makes national social policies unworkable. Yet governments' shares in gross national expenditures are little changed over the past 20 years and their tax collection powers are intact. Moreover, governments have authority to provide public goods, such as property rights, the rule of law and security.
- The Asian financial crisis (1997–98) arose because of problems integrating emerging market economies into global capital markets. Wolf acknowledges that there is a problem. Like bankers, governments and academics before, he urges the IMF and the World Bank to find answers, but also adjures emerging economies' authorities to review their domestic banking regulations, deposit insurance and prudential requirements to counteract volatile, short-term capital flows.

Environmental issues are dealt with only briefly, in just ten pages in the trade chapter. NGOs regard economic growth and increasing trade as polluting and environmentally damaging. Hence, they regard the WTO as an institution in which they should be allowed to participate in decision-making. In this context, Wolf rejects the use of trade restrictions as 'second best' instruments. His treatment of environment issues, however, is less complete than one might expect. The Kyoto Protocol is mentioned only in passing and European attitudes to GM crops and 'the precautionary principle'

(relevant to WTO dispute-settlement processes) are not mentioned.

Unfortunately, NGO organizers and their supporters are unlikely to read Wolf's forthright and persuasive assessment of globalization. He is sympathetic to the goals of some NGOs, but sometimes he dismisses anti-globalization arguments impatiently. He recognizes social and economic injustices, but he calls for rational analysis. Financial assistance to developing countries—however inadequate—has little lasting benefit without an effective government and appropriate institutional support in the recipient economy (witness Sudan, Zimbabwe, Sierra Leone and many other African countries). Strangely, development NGOs and many UN commissions express concern about such 'marginalized' economies in Africa while ignoring the lessons from economic successes in Asia, where good governance and effective civil society have been crucial.

This thorough review of globalization acknowledges that some NGO complaints should be taken into account: removal of the 'grotesque hypocrisy' of OECD protectionism; permitting temporary 'infant industry' protection in developing countries; review of the conflict between pegged exchange rates and short-term capital movements; re-assessment of the development role of international institutions (including more aid to deserving developing countries' governments); and more research to establish effective agreements on the environment. Future prosperity, however, will depend on strengthening globalization, via competitive markets and the rule of law, and on the state as the centre of political debate and legitimacy. Only governments can give authority to international institutions.

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