

# Mutuality in a market society

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**Mutuality in a market society**

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The Australia Institute has weighed into the welfare reform debate with the release of its discussion paper, **Mutual Obligation: Ethical and Social Implications**. The paper was launched by Reverend Tim Costello just a few days prior to the release of the long-expected McClure Report on Welfare Reform. Pamela Kinnear, the author of the Institute paper, considers the implications of the McClure Report.

The idea of ‘mutual obligation’ has taken hold as the guiding principle for social security policy, both here and overseas. Due to an apparently growing sentiment in the Australian public that the unemployed are not making enough effort to search for work – that they are ‘dole-bludging’ – governments began to increase the activity requirements of recipients and introduce penalties for failure to comply.

As this trend has gathered pace, it has been justified by references to ethical principles such as the notion that all rights have corresponding obligations and that members of society are bound together by a ‘social contract’ in which everyone must do their part. By drawing upon this philosophical heritage, Mutual Obligation has attained a kind of ‘motherhood’ status with which it is difficult to disagree.

But a closer look reveals a series of problems. The philosophical ideas are argued very loosely and are based on a number of popular misconceptions about the nature of unemployment in Australia.

The idea of a ‘social contract’ has never enjoyed consensus amongst political philosophers and has

generated more debate than agreement. Contemporary contract theorists such as John Rawls have suggested that any obligations that arise from a ‘social contract’ must be qualified by consideration of the distribution of obligations amongst citizens with unequal power in unequal societies.

The application of ‘mutual obligation’ in practice tends to ignore the structural realities of disadvantage and impediments to the exercise of choice. The reality is that institutions are far from just and that for most there are no realistic alternatives to accepting unemployment benefits. Indeed, economic policy in Australia deliberately controls employment growth in order to control inflation and sustain growth, with the inevitable result there are more people seeking work than there are jobs available.

This turns the idea of reciprocity on its head – since those in work have benefited from the disadvantage visited on those who have been made unemployed, those in work should be grateful to those forced onto unemployment benefits.

In short, unemployment is not the result of the failure of individual motivation, as policies of mutual obligation imply. The idea of mutual obligation has been used to provide legitimacy to the dole-bludger myth and has turned public sympathy against recipients of income support in a tidal wave of misinformation and prejudice.

### **The McClure Report**

Along with other commentators, the Institute responded with cautious support for the McClure Report. This Report sends a clear message to the Howard Government that its current policy and practice of Mutual Obligation is flawed. But we also expressed some serious concerns about the central place of mutual obligation in social security policy and about the amount of latitude the Report gives to the Government to interpret the recommendations narrowly.

The Report reformulates 'mutual obligation' in a way that is more consistent with principles of fairness and justice. In fact, the recommendations in relation to mutual obligation are broadly consistent with the guidelines for fair policy set out in the Institute's discussion paper.

Moreover, the Report changes the tone of public debate sharply, adopting a more sympathetic approach to welfare recipients. Unlike policies of mutual obligation that start from the position that 'welfare dependency' is a function of the failure of individual motivation, the Report explicitly and strongly emphasises that most people want to participate in the economic life of the

community, but are prevented by a range of structural obstacles. Most people who are not participating economically – the unemployed, sole parents, people with disabilities – are in that situation for reasons that, for the most part, are not easily within their control.

As a result, the Report recommends a reduced emphasis on sanctions and compulsion in favour of methods to secure voluntary participation in programs. Sanctions should be a 'last resort' and a rare event. In addition, it recognizes that mutual obligation is currently applied selectively and unfairly, with too much emphasis on the enforceable obligations of welfare recipients. Instead the Report reinterprets mutual obligation as 'social obligations' that apply to other groups, especially governments, business and the community.

### **What's wrong with the McClure Report?**

The concerns about the McClure Report generally have less to do with what it said than what it didn't say. From a pragmatic point of view, the absence of detail gives far too much latitude to the Government to put its own interpretation of some of the basic recommendations. This is especially worrying given the unsympathetic approach of current policies in relation to unemployed people.

The recommendations rely heavily on individualised service delivery which tailors activity tests to the life circumstances of individual recipients and which connects people up to appropriate assistance services. But it does not detail how to ensure quality case management, appropriate

*☞ continued on page 8*

### **'Banks Are Bastards' So What?**

It's official. According to the chief executive of the Australian Bankers' Association, the banks do not have any 'social obligation'. While few would be surprised to hear this, the admission comes at an inopportune time for both the authors of the recent McClure Report into welfare and the Federal Government.

The McClure Report adopted the now-common approach of advocating that government, business and community groups must all act together to solve community problems. 'Social Obligations extend beyond individuals to corporate entities such as businesses enterprises ...', the Report says, and 'additional expectations and requirements of business will need to be established'. While such an approach may sound enticing to some, little detail is provided on what the 'obligations' on corporations should be. According to the bankers, no such obligations exist.

One of the main assumptions of the economic rationalists is that companies seek to maximise their profits. Quite so. Directors of companies have a legal responsibility to protect the interests of their shareholders. Yet increasingly we hear from a pro-market Government that we should rely more heavily on business to meet the needs of the disadvantaged.

If banks think that there are benefits to their shareholders from sponsoring an opera or keeping a regional branch open then they will do it. It may be an expense, but so too is advertising, and there is no point undoing all your 'warm and friendly' TV ads with a conspicuous act of selfishness.

It's not the banks we should blame for their admission that they are concerned with profits and not communities. At least they are being honest. Let business get on with business. And let government govern, rather than trying to shift responsibility by offering up the vain hope that business will step in and fill the void.

*Richard Dennis*

## Intellectual Poverty

In May 2000 the Centre for Independent Studies (CIS) released a paper entitled *Behavioural Poverty* written by Lucy Sullivan. It argued that the after-tax impact of the welfare system means that many unemployed people have higher disposable incomes than the average worker, that people's experience of poverty is really only a result of their own poor behaviour, and that the provision of welfare fosters such behaviour.

The paper sought to pass off unsubstantiated opinion as legitimate scholarship. It is littered with basic errors of fact, logical anomalies and breaches of the accepted standards of academic research. Some of the more extraordinary and unsubstantiated assertions are reproduced below.

The Institute published a critique of the CIS paper pointing out the errors of fact and interpretation and identifying the breaches of

normal academic procedures. It may be read on our website. In response to our critique Lucy Sullivan wrote that we did not understand the 'concept of genre' and that we 'appear unable to distinguish between the deposition of arguments and the presentation of facts'. We apologise if we mistook the CIS's genre piece for scholarship based on facts. Perhaps the CIS should apologise to the public for presenting its work as research.

- "In 1975 ... there was no youth homelessness ..., no drug problem, low youth suicide and relatively little crime by minors."
- "Provision of state welfare for children created our homeless children problem."
- "How will raising welfare payments affect these suffering children? Will their parents become loving and caring? Will they

spend the extra money on toys, rather than cigarettes or heroin?"

- "... in the absence of exceptional misfortune or catastrophe, poverty must be the result of imprudent or irresponsible behaviour."

- "The improvidence currently exhibited in the sexual activity of young men and women is ... attributable to the removal of any short-term need for it [sexual self-control], since the state will provide for any children that result."

- "The responsibility [for failure to provide properly for children] lies in the progressivist dreams of the 1960s generation who refuse to see the connection that has become apparent between sexual freedom and neglect of children, most patent in the abusing boyfriend syndrome."

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## The 'Miracle' of US Welfare Reform

Hard-line advocates of Mutual Obligation frequently point out that the Clinton Administration's welfare reforms cut welfare rolls in half. This 'miracle' is regularly put forward as a shining example for us to emulate in Australia. Peter Edelman was the former assistant secretary for health and human services in the Clinton Administration. He resigned from his position in 1996 because of his 'profound disagreement' with the Personal Responsibility and Work Opportunity Bill and has spent the last few years explaining why.

Writing in the March 1997 issue of *The Atlantic Monthly* Edelman says that whilst the numbers are correct, they are

misleading. "If at first glance, the picture doesn't look too bad, this is mainly because this is a time of prosperity. Even so, only 60 per cent of those leaving the welfare rolls are getting jobs, at best. Most of the rest have been forced off the rolls by punitive policies that sanction them for failure to comply... we literally don't know what has happened to them. When the time limits hit, or a recession comes or if both occur together, we will be beset by very serious problems."

Edelman points out that early predictions, based on his department's own modeling, showed that the Bill would move 2.6 million people

(including 1.1 million children) into poverty. It showed that a total of 11 million families – many of whom were working but who also had access to Food Stamps – would lose over \$1,000 a year.

"Real welfare reform", Edelman argues, "would make sure people receive the help they need to get and keep jobs and would provide a safety net for children. This law literally removed any obligation for any state to assist anyone and installed a lifetime limit of five years for federally financed assistance to a family, regardless of whether there is a recession."

## Pearson on Welfare Dependency

**In recent months Noel Pearson has taken the bold step of publicly attacking welfare dependency in Aboriginal communities, pointing to the crippling effect of ‘progressive policies’ that provide handouts without requiring anything in return.**

In launching his assault, Pearson – who last year labelled opponents of measures to improve the lot of Indigenous people “racist scum” – has both dismayed progressive supporters of Indigenous rights and delighted hard-line advocates of ‘welfare reform’. Samuel Gregg from the ultra-libertarian Centre for Independent Studies has lumped Pearson with Tony Abbott and Mark Latham as those who now understand the damage being done by the welfare system and ‘have the courage to state this publicly’.

Everyone understands that many Indigenous communities have sunk into despair and that something must be done, but in deciding to grab the tiger by the tail – and in the process burning off some of his white supporters – Noel Pearson is taking a big gamble. For if his solutions to the problem are not taken up, his words can only play into the hands of those such as Tony Abbott and John Howard who want to wind back income support in ways that are profoundly unfair.

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**“...the stick falls especially harshly on Indigenous backs”**

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In adopting some of the current Government’s rhetoric, Pearson is interpreted as endorsing its approach to Mutual Obligation. But is he really? It is hard to believe that he supports the idea that Aboriginal people owe a debt to Australian taxpayers in

return for their generosity in providing income support.

It is also hard to believe that he supports the idea that Aboriginal ‘welfare dependency’ is caused by the failure of motivation on the part of individual Aboriginal people. And it is particularly unlikely that Pearson advocates the application of punitive measures against those who fail to meet the new work tests, a stick that falls especially harshly on Indigenous backs. Recent research has shown that breach rates of Indigenous people are over twice those of non-Indigenous people and that Indigenous people are far less likely to appeal against unfavourable decisions.

The ‘welfare dependency’ of which Pearson speaks is a symptom of the past and present systematic exclusion and social destruction wrought on Aboriginal communities by racist and misguided policy and attitudes. Blaming the victim is a well-worn tactic.

Pearson has said that Aboriginal people do not need welfare; they need economic opportunities. Income support is a far less preferable solution than providing opportunities for economic and social participation. If income support is taken away, Aboriginal people will indeed be freed of welfare dependency, but what will they be left with? Income support is undoubtedly a third or fourth order answer, but what are the first two? Redressing social and economic disadvantage of this magnitude needs much more than an

appeal to the disadvantaged to exercise greater personal responsibility.

The fact is that while we know how to deliver welfare to stop people starving, we do not yet

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**“...it is difficult to imagine a worse political environment for Indigenous leaders to attack ‘welfare dependency’ ”**

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appear to know how best to deliver economic opportunities to make them independent. Land rights are part of the answer. Indigenous control over government spending will help, as will programs to stimulate Indigenous enterprise. But these are clearly not enough. It needs a solid commitment on the part of Australian governments and the wider community to redress the economic and social injustices that burden Indigenous people in Australia – something that this Government has proven time and again that it is unwilling to do.

Indeed, it is difficult to imagine a worse political environment for Indigenous leaders to attack ‘welfare dependency’, for there is no will on the part of this Government to develop and implement the sort of radical – and expensive – programs that one way or another will be required. Nor will non-Indigenous income support recipients thank Pearson for providing ammunition to those who want to deny them their due.

*Clive Hamilton*

## Subsidising the Health of the Rich

**The Commonwealth Government's policy of providing incentives for membership of private health insurance funds has come under scrutiny in recent months. A new Institute study launched this month exposes the huge inequity in present rebates for private health insurance. Julie Smith, the author of the study, explains.**

Tax reform over the last decade has emphasized removing special concessions from the tax system, but the tax concessions for private health insurance brought in by the Howard Government directly contradict this.

At stake is the progressivity and effectiveness of Australia's national health care financing system. The Government admits its health insurance rebate now costs the taxpayer \$1.9 annually. Others put the cost even higher, at \$2.4 billion. The incentives package means the private health insurance industry receives more budgetary assistance than provided to the mining, manufacturing and primary agricultural production industries combined.

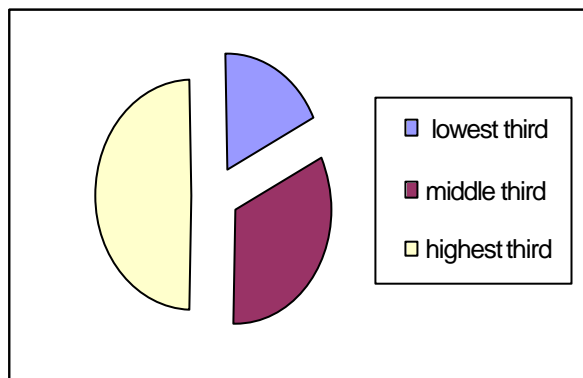
The Institute study is the first to examine the distribution of tax expenditures on health-related spending. 'Tax expenditures' are defined as forgone revenue due to concessions in the tax system. Since 1975, universal access to free public hospitals and cover against specified medical costs has been financed substantially through progressive taxation. The 'upside-down' distribution of public assistance to the health insurance industry significantly distorts this progressive pattern of health care financing.

Using official taxation statistics, the study shows tax concessions for health under the Government's Private Health Insurance Incentive Scheme

(PHIIS) remain heavily skewed towards the affluent.

For 1997-98, the latest year for which taxation statistics are available;

- around a half of the value of tax concessions for private health insurance went to the most well off third of taxpayers; and,
- less than a fifth of these concessions go to the one third of individuals in the lowest taxable income group.



**Distribution of tax expenditures on PHIIS tax rebate by taxable income group, 1997-98 income year.**

The income-tested PHIIS rebate for health insurance was at least as regressive as the universal rebate existing in the early 1980s. The present universal rebate is even more inequitable.

Well over a billion dollars of public money now underwrites the health care spending of Australia's richest individuals and families.

A major finding of the Institute study is that that tax assistance to the health insurance industry is severely understated. Exemption from the 1 per cent Medicare levy sur-

charge for the insured has not been counted by Treasury as a tax expenditure. The Institute argues it should be and estimates the value of the concession represented by the exemption to be around \$1.1 billion annually.

Using Commonwealth tax powers to impose a discriminatory tax on individuals choosing not to purchase a commercial product is ques-

tionable, and sets a precedent for imposing discriminatory income taxes according to other dubious criteria.

The Government concedes that the rich can afford to pay more for health care.

However, a more effective and equitable way to increase the contribution of the rich to health care costs would be to abolish the exemption from the Medicare levy surcharge and channel the revenues into the public health system.

Public assistance for the private health insurance industry is at the expense of public health care. Each year, the private health insurance rebate alone is drawing over \$2 billion of government funding away from public health care provision.

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## John Howard Says Sorry

Good evening. My name is John Howard and I'm speaking to you from Sydney, Australia, host city of the year 2000 Olympic games.

At this important time, and in an atmosphere of international goodwill and national pride, we here in Australia – all of us – would like to make a statement before all nations. Australia, like many countries in the new world, is intensely proud of what it has achieved in the past 200 years.

We are a vibrant and resourceful people. We share a freedom born in the abundance of nature, the richness of the earth, the bounty of the sea. We are the world's biggest island. We have the world's longest coastline. We have more animal species than any other country. Two thirds of the world's birds are native to Australia. We are one of the few countries on earth with our own sky. We are a fabric woven of many colours and it is this that gives us our strength.

However, these achievements have come at great cost. We have been here for 200 years but before that, there was a people living here. For 40,000 years they lived in a perfect balance with the land. There were many Aboriginal nations, just as there were many Indian nations in North America and across Canada, as there were many Maori tribes in New Zealand and Incan and Mayan peoples in South America. These indigenous Australians lived in areas as different from one another as Scotland is from Ethiopia. They lived in an area the size of Western Europe. They did not even have a common language. Yet they had their own laws, their own beliefs, their own ways of understanding.

We destroyed this world. We often did not mean to do it. Our forebears, fighting to establish themselves in what they saw as a harsh environment, were creating a national economy. But the Aboriginal world was decimated. A pattern of disease and dispossession was established. Alcohol was introduced. Social and racial differences were allowed to become fault-lines. Aboriginal families were broken up. Sadly, Aboriginal health and education are responsibilities we have still to address successfully.

I speak for all Australians in expressing a profound sorrow to the Aboriginal people. I am sorry. We are sorry. Let the world know and understand, that it is with this sorrow, that we as a nation will bow and seek a better, a fairer and wiser future.

Thank you

John Howard, July 3, 2000.

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### Subsidising the Health of the Rich *from page 5*

Encouraging private health insurance membership is supposed to take pressure off public hospitals.

Yet research has shown shifting demand to the private hospital sector would save less than \$1.3 billion annually.

Public sector cutbacks over the last decade have produced queues in public hospitals and

axing of public dental care services. Through the rebate for private health insurance, the Federal government now provides a \$2 billion-plus public subsidy for high-income earners to jump hospital queues, obtain cosmetic surgery and dental care, and pay for their gym club membership.

The study argues that the private health insurance rebate should be abolished, particu-

larly for ancillary insurance. This would release at least \$2 billion of additional funding for improving access to medically-necessary hospital services, and public dental and allied health programs.

Extending the Medicare levy surcharge to all high-income earners would further expand available revenues for the public health care system and enhance the progressivity of health care financing in Australia. ■

# Green Power: Taxing Concern?

The recent decision by the Federal Government not to adopt emissions trading leaves Australia without a greenhouse policy. Government's in this situation often appeal to voluntary schemes as a substitute for real policy. The effectiveness of the 'Green Power' is the subject of a recent Institute Discussion Paper by Richard Denniss. Here is an outline of his analysis.

The Green Power scheme has been heavily marketed by electricity retailers. It typically involves a contract between customers and the retailers whereby the customers volunteer to pay a higher price per kilowatt hour for their electricity and the retailer promises to purchase an equivalent amount of electricity from a renewable generator. In practice, every house gets the same 'mix' of green and polluting electricity, as all the electricity is delivered through the same distribution grid.

Despite all of the expensive marketing, after four years operation in NSW the schemes have attracted fewer than two percent of customers. The schemes have recently been extended nationally but there is little reason to suspect that the performance will be any better than that achieved in NSW.

When the scheme was first launched it was based on market research that suggested that more than 65 percent of people would be willing to pay more for 'green electricity'. In turn, forecasts made in 1995 suggested that between 26% and 30% of customers would have signed up by 2000.

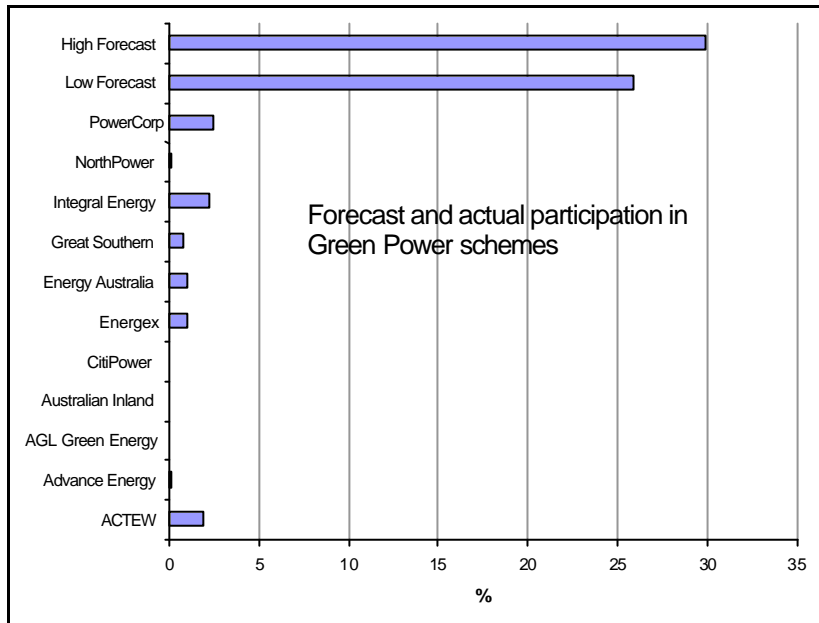
The NSW Sustainable Energy Development Authority has defended the Green Power schemes saying that participation continues to grow steadily. However, the Institute paper finds that at the current rate of new enrollments it will be 20 years before voluntary schemes

have a million customers.

While there is no doubt that any scheme that leads to an increase in consumption of renewable energy has benefits, the issue is whether the sole reliance on voluntary schemes is likely to have a significant impact on carbon dioxide emissions.

schemes rely on the opposite approach; they effectively tax concern by allowing those who are willing to act to protect the environment to pay more than those who are less concerned.

Voluntary schemes have played an important role in increasing awareness of renewable energy.



While less than two percent of residential customers have joined the scheme, it should be remembered that more than 70 percent of electricity is consumed by commercial users.

The economics of pollution control are straightforward. The way to get people to reduce pollution is to charge them an appropriate price for their emissions. Such a price can be fixed by a carbon tax or can be determined through the market in a tradable pollution permit system. Either way, the rationale is 'polluter pays'. Voluntary

The enormous gap between those who say they will participate and those who actually do should not be interpreted as a lack of concern for the environment. On the contrary, the gap should be seen as evidence of the need for better mechanisms to ensure that those who pollute more are asked to pay more and to ensure that the majority of the population, who have expressed a willingness to pay for a cleaner environment, can live in the environment they deserve. ■



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from page 2

staffing of 'gateway' services and appeal and review processes that would be needed. This is of particular concern because of the highly discretionary nature of the proposed system. There is evidence aplenty that Centrelink and other 'gateway'-style services often fail to deliver quality or consistent service and that appeal systems are inadequate methods of ensuring justice.

The Report stresses that sanctions should be a last resort, but it does not detail what such sanctions would look like and how to define a 'last resort' situation. In practice, therefore, it is possible that nothing will change and that the current harsh regime will simply be extended to a wider range of recipients.

However, there are also deeper philosophical doubts about the Report's approach, as it does not challenge the idea of mutual obligation is a legitimate foundation for welfare policy.

The change in terminology from 'income support' to 'participation support' is a case in point. The implication is that support in times of need is now conditional on certain prescribed forms of 'participation', rather than on the fact of demonstrated need. The term 'participation support' muddies cause and consequence. Participation is the end, not the means.

The shift from rights-based income support to conditional 'participation' support is too big a step to take, especially when the capability

## Values and Market Economies

**The impact of radical free market policies on the ethical foundations of society are being debated in international forums. Recent decisions by the Howard Government suggest that Australia does not want to be part of these discussions. Here John Nevile reports on debates in Europe.**

In 1995 in Copenhagen the United Nations held a Special Session of the General Assembly on social development. Its themes were the eradication of poverty, discrimination and unemployment and strengthening social integration. Another Special Session was held in Geneva in June 2000 to review and appraise the implementation of the goals of the Copenhagen meeting and to re-invigorate the drive for social development.

The UN held a seminar in Paris early this year to consider how the values underlying social development and those of the market economy fit together. Thirty experts from around the world were invited to speak at the seminar including the present writer.

The seminar, entitled "Values and Market Economies" examined the values expressed by the

dominant type of market economy in the world today and set them alongside those emphasised at the Copenhagen summit. The latter were taken directly from the UN Charter and the Universal Declaration of Human Rights with the addition of one value, sustainability, that has come to prominence more recently. The values particularly relevant to the way modern market economies function are:

1. everyone's right to an adequate standard of living;
2. full employment and workers rights, including the right not to be discriminated against;
3. a sustainable pattern of economic activity and development; and
4. political and economic freedom for individuals.

Economic freedom includes the right to choose where and how to produce and, to a large

to administer such a policy fairly remains elusive and when our thinking on the issue remains so muddled and tainted by misinformation and prejudice.

This is not an encouraging development, nor does it seem to be consistent with the Report's own emphasis on structural impediments as the explanation for joblessness and social exclusion. ■

**As a small nation in terms of power, our best protection is in a civilised world. Whatever its imperfections, we do not advance the cause of civilisation and of security and peace by condemning the instruments of international order.**

**Malcolm Fraser**  
*August 2000*



extent, how to allocate the fruits of one's production.

The seminar agreed that given these values the market economy system is the "only game in town". No alternative economic system has been able to produce the abundance of goods and services necessary if the world's population is to have an adequate standard of living, and still allow sufficient economic freedom and initiative to individuals. However, the seminar also recognized that there are many variants of market systems and the dominant one in today's world emphasises values that conflict with those of the Copenhagen summit.

First, the great emphasis on economic freedom is coupled with a belief in the right of each individual to keep as much as practical (given the need to pay for minimal government) of what he or she produces. At the same time, the value of ensuring that everyone has an adequate standard of living and is integrated into society is downplayed or ignored. Secondly, often no more than lip service is paid to the need for *sustainable* economic activity and development.

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**"The challenge is to affirm the need for market economies without accepting the values that lead to a market society"**

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Thirdly, a materialistic notion of what constitutes a good life is emphasised. When the market is no longer a servant but becomes the master and the value of everything is measured by what people are prepared, or able, to pay for it, we have not only a market economy but also a market society. As a French participant put it: "When the logic of market transactions invades most spheres of social

*Governments can't have it two ways. It is not rational to say that we live in a globalised world economy, that there is one world market place, that financial market places must be open and transparent from one country to another, and to reject the inevitable conclusion in relation to matters such as human rights and the environment.*

*Malcolm Fraser  
August 2000*

life, everything becomes a commodity and ultimately nothing is worthy of respect".

The market economy is essential as a mechanism for organising production if those in poverty around the world are to have an adequate standard of living. It is probably necessary just to reduce inequalities around the world, as they have been reduced in western countries in the last 200 years. The challenge is to affirm the need for market economies without accepting the values that lead to a market society.

It was pointed out at the seminar that the present social philosophy of market liberalism, or economic rationalism as it is called in Australia, did not occur by accident, but was the result of a deliberate campaign by Hayek, and his disciples such as Milton Friedman. A new educational and political campaign is needed to restore some balance. A first step in such a campaign could be an attack on the view that policy packages that will inevitably increase unemployment are a necessary discipline and a sign of fiscal rectitude, and must be adopted by countries before they are eligible for international assis-

tance. However, there must be an underpinning, overall social philosophy, as there was in Hayek's case. What is needed now is a social philosophy which:

- emphasises the need for a balance between personal freedom and an individual's responsibility for the welfare of others, especially the vulnerable and the disadvantaged;
- values the community acting together through the government to achieve various goals ranging from protecting the environment to achieving full employment and eradicating poverty; and
- recognises that humankind's responsibility for helping fellow humans extends beyond national borders.

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**"market liberalism was the result of a deliberate campaign by Hayek"**

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Similarly it was emphasised during the seminar that a new political project was needed to counter both the vested interests in, and the ideological commitment to, a largely unregulated global capitalism. This project should be a step away from a 'state-centric' world towards global-scale democratic government, drawing from different cultures and forming new coalitions of those against 'globalization from above', but in favour of an ethically based movement towards a global human community.

A number of specific suggestions about economic institutions were made at the seminar but not debated due to lack of time. They centered on international economic relations and reflected the widespread unease around the world with the current institutions and arrangements. ■

## Trade Rules, OK?

In the lead-up to the meeting of the World Economic Forum in Melbourne, the Institute has released an issues paper entitled *Making the Trade System Fairer*.

It argues that world trade is governed by rules and, as with all sets of rules, they favour some players at the expense of others. The present rules favour big corporations and give little comfort to defenders of human rights and the environment. Moreover, the umpire, the WTO – meeting in secret and hearing advice only from economists, bureaucrats and ‘trade experts’ – is notorious for interpreting the rules in a biased way.

Simple changes in trade rules that permitted discrimination

against goods produced using unacceptable methods of production, including unsustainable and exploitative processes, would bring about a major improvement in environmental standards around the world. Such a change would be no more ‘protectionist’ than opposition to trade in goods produced by slave labour.

Rather than representing a return to the ‘bad old days’ of protectionism, fair trade can be a modern way of promoting sustainability and human rights.

*Copies of the issues paper are available from the Institute. It can also be read at our website - [www.tai.org.au](http://www.tai.org.au).*

## The Australia Institute

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## Rescuing Landcare

The launch in July of the Institute’s discussion paper on the future of Landcare at the National Press Club was a sell-out. The paper was certain to attract interest because it was written by the ‘architects’ of Landcare, Phillip Toyne and Rick Farley who, ten-years ago, were the heads of the ACF and the NFF.

The framework of Landcare principles and process, and the name itself, were formulated in the mid-eighties by Joan Kirner, then Victorian Minister for Conservation, Forests and Lands, along with the late Heather Mitchell from her department. Inspired by the Victorian experience, Toyne and Farley approached Prime Minister Hawke in 1989 with a proposal to make Landcare a national program. They were astonished at how quickly Hawke agreed to their request for \$340 million over ten years.

Despite the great hopes invested in Landcare, Toyne and Farley have now concluded that the goals of Landcare were ‘hopelessly optimistic’ and that most of the problems that the Decade of Landcare set out to address are increasing in severity and scale.

The problems of water management in the Murray-Darling, continued tree clearing in Queensland and the slow death of the Snowy River show how poorly connected our management and policy are to the necessary responses. The evidence showing continued environmental decline is alarming, yet the warnings issued by scientists are largely ignored.

While Landcare has been successful in providing information and stimulating attitudinal change, Landcare groups themselves have only a marginal direct impact

on environmental actions, which are on the whole initiated and paid for by individual farmers.

Toyne and Farley put forward a Ten-Point Plan based on the principle of ‘mutual obligation’.

Surely the concept of ‘mutual obligation’ must be extended beyond the welfare system to the much greater personal financial benefits to be received in future by landholders. If a land manager is to receive a private benefit from public expenditure on the scale required, he or she must accept the goal of sustainable land use and accept independent verification of progress towards it.

The plan includes a 1% National Landcare Tax like the Medicare levy, to be applied over ten years and designed to raise \$30 billion, around half of what some estimate is required. ■

## BOOK REVIEW

**Privatisation: Sell Off or Sell Out?**

by **Bob and Betty Con Walker (ABC Books, Sydney 2000). Available from the Institute.**

This is a timely and interesting book. It strips away the ideological and political humbug surrounding privatization and explores the underlying rationale. The authors, Bob Walker and Betty Con Walker, are concerned with three forms of privatization – outsourcing, the sale of government trading enterprise (GTE's) and private sector equity financing of new infrastructure.

On outsourcing, their theme is that it makes good sense up to a point but that it has gone too far. They question for example the application of outsourcing to areas such as prisons and employment services. They also pooh-pooh claims of big cost savings which ignore redundancy costs and the costs of administering contracts.

On the sale of GTE's, the authors are quite relaxed about selling government banks, gaming houses or even airlines – provided they are not (as in the past) sold too cheaply because of faulty cash flow analysis. But they want to “draw the line at selling public utilities” – services basic to life and health. More pertinently, they want to see much better financial and economic analysis before decisions are taken.

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On the financing of new infrastructure investment, the authors rightly question the logic of private ownership of road infrastructure, where the risks

are policy-related, regulatory or political in character and therefore best managed by the public sector. Using private sector equity for such projects inflates the cost.

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However (and here one must dissent from the authors), the cost of new capital is not always lower for the public sector than the private sector. The key component of the cost of new capital – the risk premium – is intrinsic to a project or enterprise and its size depends crucially on the ability of the owner to manage that specific risk.

If the risk is predominantly commercial in character – i.e. of the kind which efficient private capital markets are better equipped to evaluate, price, control, diversify and manage than the public sector – then the private sector may demand a lower risk premium than governments. In such cases (e.g. new electricity-generating capacity in a competitive market) governments may seem to raise capital more cheaply but that advantage disappears once we allow for the implicit taxpayer guarantee to cover future project risk.

In all its three forms, the authors argue that privatization is only justified if it meets five key criteria:

1. the private sector is more efficient;
2. there is genuine market

competition, so monopoly profits are avoided;

3. the efficiency gains are not offset by a higher cost of capital;

4. up-front planning, transaction and marketing costs and human adjustment costs are small overall relative to the long-term discounted benefits; and

5. wider community concerns, such as universal service obligations, social equity, health and environment, can be adequately and cost-effectively accommodated under a privatised regime (e.g. through subsidies, taxes, regulation or contractual agreements).

The Walkers build all these criteria into their analysis and add another often overlooked by economists: the effect on parliamentary and political accountability. They devote many pages to ways of tightening accountability.

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**“Insisting on zero long-term net borrowing is evidence of lazy, unimaginative doctrinaire government, not responsible government.”**

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A recurring theme of their book is that rigorous analytical tests of the above kind are not systematically applied and that privatization is often driven by ideology. To illustrate this point, the authors devote a whole chapter to examining a number of the typical claims made by politicians and the media when advocating privatization.

It is particularly pleasing to see them challenge the exasperating proposition – now in vogue in

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the media – that asset sales are desirable because some of the proceeds can be used to fund new infrastructure investments. The authors point out that in net worth accrual accounting terms, selling public assets is the same as borrowing. But even in economic terms the notion that selling public assets somehow releases resources for new infrastructure is incorrect. The macro-economic effects are broadly the same whether a new infrastructure project is financed out of Government borrowing or out of the sale of public assets.

Of course, governments must keep their borrowing within the bounds of prudence or affordability and should only use such borrowings for capital not recurrent spending. Assuming that a capital spending program is economically sound, that the economy can bear additional spending and that the investments can be more efficiently financed by the public sector, the only prudential limits on government borrowing should be that: beyond a point, the cost of servicing net public debt should not outstrip GDP; and any new infrastructure financed out of borrowing should have a life which roughly matches the term of the borrowing, so as to ensure inter-generation equity.

But whatever prudential rules one might wish to impose, there is no rationale at all for simply requiring governments to balance their cash flows over the business cycle. Insisting on zero long-term net borrowing is evidence of lazy,

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## **Staff News**

### **Farewell**

The Institute said goodbye to Renata Bryce in July. Renata was Assistant Director for two years and has now chosen to spread her wings in Sydney. We thank Renata for all her hard work in the past and wish her the very best for the future.

### **Welcome**

The Institute welcomes Aine Dowling as Assistant Director. Aine has spent many years working in Administration and Project Management, most recently in the area of development aid funded projects in Papua New Guinea. Aine is currently studying for a Diploma of Business (Management).

unimaginative doctrinaire government, not responsible government.

One of the great strengths of this book is that it draws heavily on actual case studies. It injects a voice of reason and objective information at a time when these are sorely missing from the public debate. It deserves to succeed.

**Reviewed by Fred Argy**

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