

The Ageing Crisis

There is a widespread perception that Australia faces an 'ageing crisis' that will impose an unsustainable drain on the public purse. But how valid is this position, and what should we do about it? Pamela Kinnear, author of the Institute's just-released paper *Population Ageing: Crisis or Transition?* argues that the future may not be as daunting as it seems.

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It seems self-evident that a significant increase in the proportion of older people will create an intolerable burden on taxpayers and carers – groups that will diminish as the population ages. Conservative commentators tell us that, because of this, governments must reduce public expenditure and promote private provision, especially for health and retirement income. But is there really a crisis that requires far-reaching changes to the welfare state?

Fears about population ageing are founded on negative stereotypes of older people as dependent, burdensome and frail. But this image is not consistent with the facts. The vast majority of older Australians are healthy and active and live independently in the community. Only 7% of people aged 65 and over require residential care and even fewer require public assistance for daily living. Indeed, most older people give more than they take – contributing childcare, house maintenance and financial support to adult children and their families, and participating extensively in voluntary activities.

Deconstructing dependency

The foundation of the crisis rhetoric is a concern about an imbalance in the 'dependency ratio' – the idea that fewer people of working age will be supporting an increasing proportion of non-working older people. By dividing the non-working age population by the working age population, this measure is said to estimate the level of 'dependency' within a population.

However, by falsely equating dependency with age this measure epitomises

the stereotype. Not only does it ignore the fact that many older people are independent, but also that many younger people are dependent for reasons of study, unemployment, sole parenthood or a range of other reasons.

In fact, research indicates that because of the decline in youth dependency as the population ages, by the year 2051, the total dependency ratio in Australia will be approximately the same as it was in the 1970s. Of course, aged dependency has greater fiscal impact as governments meet more of the costs associated with old age than they meet for children. But if the goal of policy is to ensure the availability of adequate and properly distributed resources for those who require support, then account needs to be taken of the total public and private costs of caring for dependents.

Draining the health system

It is well known that older people have more regular contact with the health system than younger people, and so high health costs seem inevitable as the proportion of older people increases. However, rather than being a function of age, health costs are highest in the few years prior to death. So, although a larger proportion of older people will place some pressure on health costs, these costs are shifted to later ages than extended over a longer life span.

In fact, ageing contributes only a small amount to rising health costs. Between 1983 and 1995, only 0.6

per cent of the 2.8 per cent growth in Australia's health expenditure was due to ageing. Rising costs are more the result of the expansion of medical technology, rising consumer demand and escalating prices. Focusing on population ageing as a cause of rising health costs diverts policy away from tackling more influential causes.

Australia is comparatively well placed to cope with future pressure on pensions.

In addition, as Institute research has recently shown (see the article on corporate medicine in this Newsletter), shifting responsibility for healthcare from public to private hands may be counterproductive, creating greater levels of inequality, reducing overall population health and, in the long run, diminishing the future health of older generations.

Will we all need pensions?

Secure and long-term employment maximises people's chances to build retirement savings and reduces their reliance on the public pension. Thus, the current average retirement age of 59 for men and 44 for women has generated concern about the costs of 'early retirement'.

Despite popular opinion that people retire early to maximise their leisure time, most 'early retirement' is involuntary – the result of labour force discrimination, retrenchment and high levels of mature-aged unemployment.

~~**Increased migration is a very ineffective means of slowing population ageing.**~~

~~Strategies to prevent early retirement often include calls to raise the age at which people can access retirement incomes. Although important, this will only be effective if more people are able to remain in the workforce until the upper limits are reached.~~

Similarly, while superannuation can offset future reliance on pensions and increase the adequacy of retirement incomes, this will only succeed if lifetime earnings are stable, secure and high enough to provide for basic needs at earlier life-stages and across all sectors of the population.

Nevertheless, population ageing will be good news for older workers. As the pool of younger workers diminishes, share of employment going to older workers will naturally rise. This trend will also most likely see unemployment fall, so that reductions in unemployment payments will offset increases in expenditure on pensions.

Even so, Australia is comparatively well placed to cope with future pressure on pensions. The non-contributory flat-rate and means-tested system in place will see pensions expenditure grow by only 1.5 percentage points to reach 4.5 % of GDP by 2040. This is well within manageable limits and is far below that of other OECD countries.

Building the population

Some argue that the answer to population ageing is faster population growth through higher migration or increased fertility.

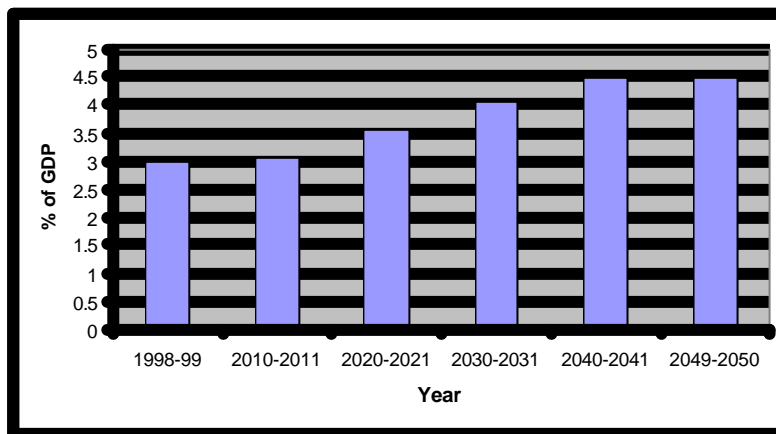
Measures aimed at expanding the numbers of working age people would slow the effects of population ageing and prevent population decline.

However, despite popular belief, increased migration is a very ineffective means of slowing population ageing, with very large increases in population through migration required for very small reductions in age structure. Research has shown that migration levels at around current levels would slow population ageing, but higher levels will have very little impact.

Increasing fertility rates is a more efficient means of offsetting population ageing and would be achieved at lower cost in terms of overall population growth. But in order to achieve this, policies need to promote the more equitable distribution of caring work and to support the combination of motherhood and paid employment.

Far from being a looming crisis that requires radical changes to the welfare system, Australia's population ageing is quite manageable. Instead of a threat to Australia's future, population ageing is an opportunity to ensure decent living standards for all. ■

Pension outlays as a percentage of GDP, Australia, 1998 – 2050



Source: DHAC

Election 2001

Insecurities and inequalities are now dominant

Despite post facto denials by the Liberal Party, most observers believe that the Coalition won the election thanks to the GST – not the tax, but the Good Ship Tampa. Shaun Wilson provides an analysis of one of Australia’s most fractious and ill-tempered elections.

The 2001 election result reveals much about the past, present and future of Australian society. It is no longer controversial to suggest that the Government used the asylum seekers as a ‘wedge issue’ to win back One Nation voters and to gain Labor voters in the outer suburbs of the large cities, particularly in Sydney.

Without this issue, there is little doubt that the Government would have been defeated, in part because it would have had fewer distractions to shield it from its unpopular policies on the domestic front.

The first and perhaps most surprising observation is that the three parties who took the strongest position on the boat people actually *lost* votes. The Liberal, National and One Nation parties polled just over 47 percent, while the three parties of the Centre Left – the ALP, the Democrats and the Greens – actually increased their share of the vote, polling slightly over 48 percent. Such results appear to contradict the view that the asylum seeker issue helped the Coalition win.

For Labor, the cruel fact is that it is becoming less and less of a national party.

What the asylum seeker issue did, however, was to strengthen the Coalition’s primary vote. It managed to improve its two party preferred vote because it gained former One Nation voters on *first preferences*, and thus avoided losing One Nation preferences to Labor. The movement of One Nation voters back to the Coalition can in large measure be explained by the Government’s tough stand on the boatpeople.

The ALP saw its vote fall and although this benefited the two smaller parties of the centre-left, the Greens and the Democrats, Labor did not gain sufficient preferences to offset its poor primary vote. So while there was little movement between the overall share of votes going to the left and right, the Coalition was advantaged by gaining primary votes where it needed them.

The blue ring

The Howard Government also survived because Australia’s electoral geography is becoming more and more favourable to it. The Coalition won seats where it needed to. The most striking evidence for this is to look at the greater Sydney region.

Gore had trouble winning over ‘waitress mums’ and ‘technician dads’.

There is now a ‘blue’ Liberal ring hemming in the metropolitan area that stretches from Robertson in the north to Lindsay and Macquarie in the west, and through to Macarthur, Hughes and Cook in the South. With the exception of Ballarat, Labor has made no gains in the 2001 election and lost several of its own seats.

For Labor, the cruel fact is that it is becoming less and less of a national party, being confined to city electorates with concentrations of middle-class progressives and working-class migrant voters. It is making little progress in the mortgage belts where there are fewer migrant voters, lower numbers of unionised workers and voters who swing on wedge issues like immigration. Outside

the major cities, the ALP has only a minor presence.

Why has Labor failed to make contact with these voters, the same voters who voted for Bob Hawke during the 1980s? It is part of a bigger problem for social democratic parties around the western world. Some parts of the traditional working class electorate are deserting social democratic parties. This has been in evidence in the recent American, Austrian and Danish elections.

One American political analyst, Ruy Teixeira, has written about Gore’s problem winning over ‘waitress mums’ and ‘technician dads’, voters who are struggling to raise families and would normally vote Democrat but didn’t in 2000.

Why are ordinary working class voters leaving labour and social democratic parties? For one, these parties are losing their large unionised manufacturing male workforces that provided the basis of support and failing to make sufficient connection to the ‘new’ working class – low paid service workers, technicians, and self-employed workers in industries like construction and transport.

Insecurity and conservatism

The move to the right on economics and social protection is a big problem in maintaining voter loyalty as well. There’s no longer any serious commitment to create sustainable full employment with

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good jobs – the very heart of social democracy. In short, labour parties don't offer much to working class voters any more, and certainly many voters are expressing their resentment by blaming outsiders, migrants, and the unemployed.

In my recent analysis of attitudes towards immigration published in the *Australian Quarterly*, I found a strong link between household economic insecurity and the belief that immigrants take jobs from people born in Australia. For insecure voters, Howard's promise to keep out refugees talks to voters' economic insecurity louder and more directly than Labor's vague promises about health, education and jobs.

Labor in Australia has certainly added to its own lack of policy credibility. Years of government cutbacks in public sector jobs, the decline of manufacturing in the cities and the regions, and the growth of low-paid jobs have created a group of economic losers who are concentrated on the edges of the cities and in rural and regional Australia.

~~The need for clear and bold policy has rarely been greater.~~

In *The Age* on June 18, AMWU Secretary Doug Cameron was quoted describing perceptions overseas of the Australian economy being a "quarry, a farm and a nice place to visit". Labor policies for over a decade have contributed to that scenario and Labor no longer has much connection to the voters most affected by the policies producing this decline.

Aspirational voters

Since the election, most criticism of the ALP by political commentators and Labor politicians has centred on the need to

connect to 'aspirational voters' and distance the party from its trade union base and history. Only a minority of post-election criticism has targeted Labor's lack of policy, its commitment to economic rationalism and its lack of vision. My criticisms are in agreement with the latter, minority view.

Labor's key policy of Knowledge Nation did not appeal to its broader constituency. It did not set out clearly how jobs would flow from education, it concentrated on universities and not on skills and vocational training, and it was confusing.

Why didn't Knowledge Nation concentrate on creating, say, 100,000 new apprenticeships or on building up targeted regional centres with jobs and public sector investment? The policy sounded like it was written and communicated by people who only seemed to know how to speak to the converted.

The need for clear and bold policy has rarely been greater. Medicare is the ALP's most successful recent policy initiative and it should use it to consolidate broad appeal. Why didn't Labor offer to make a visit to the dentist available to *everyone*?

Such a promise would have focused the electorate on the divide between Labor and the Coalition: under Labor dental care is free under Medicare, and under the Liberals it remains a major expense for those without private health cover. While bold policies like this cost money, it makes more sense to spend money on a few genuine and clear promises rather than lots of vague ones.

Union 'control'

Labor wants to loosen links with trade unions, which apparently 'control' the party. Union domination, we are told, makes the party look out of touch. But I believe Labor is out of touch be-

cause its leadership and factions self-select professional politicians who are unrepresentative of Labor's constituency.

Labor chooses candidates who are out of touch with working people. It used to be that Labor candidates who came from union backgrounds had *some* connection to their immediate constituencies' lives and aspirations, but the newer generations of professional politicians have almost no connection to their constituencies at all.

This election tells us a lot about politics in a more divided and unequal society. And it is hitting Labor hardest. Labor's challenge now is to make contact with voters outside the inner cities without further alienating its progressive support base by accepting and abetting the Coalition's redefinition of Australian society. The same problems are facing labour and social democratic parties around the world. ■



New Arrival!

After months of planning and sleepless nights the Institute is pleased to finally announce the arrival of its NEW-LOOK website

www.tai.org.au

The new website portrays a modern yet professional image with simple graphics and links.

On the new site you will still find publications, media releases and the newsletter as well as information about the staff (with photos), directors, a search function (that actually works), plus revamped order and membership forms.

We would like to thank Michael Reid who spent a deal of time on the technicalities of actually getting the site up and running, and Justine Underwood who designed the site.

Corporate Control of Healthcare

Flourishing corporate control of healthcare is opening Medicare to exploitation, destroying medical ethics and restricting access to basic medical services for an increasing number of Australians, according to a new study by the Australia Institute. The study, Corporate Control of Healthcare in Australia was prepared by Dr Fran Collyer of the University of Sydney and Dr Kevin White of the ANU.

The paper argues that the twin developments of the privatisation of public healthcare and the corporatisation of other healthcare services are having a profound influence on professional autonomy, professional ethics and the priority given to patient care.

This means that the integrity of Australia's medical system can no longer be guaranteed. The widespread incursion of big business into healthcare has resulted in seriously declining standards across all services, and escalating costs in the interests of shareholder profits are eroding patient access to even basic services.

Growing corporate control has seen the healthcare system opened up to more rorting and fraud. Medicare, our publicly funded insurance system, is increasingly seen as a lucrative source of funding for private corporations, many of which are dominated by interests who have little regard for the traditional medical ethos.

The corporate general practice market is said to be worth \$2.7 billion. There are five major players in Australia. Together they have contracts with 3,000 of Australia's 20,000 general practitioners.

The study found that corporatisation means that doctors are losing their capacity to make independent decisions about the best interests of patients. To maintain their incomes, GPs and specialists under contract to medical corporations are pressured to see more patients, to see patients for only one problem per visit, to prescribe minimum quantities of drugs to

ensure return visits, to increase the number of diagnostic tests and to refer patients to other services owned by the corporation itself.

The majority of magnetic resonance imaging scanners are now found in the private sector and there has been a dramatic increase in private services for complex technologies. As a consequence, public patients are finding it more difficult to gain access to the latest technology.

"For instance, patients are already finding themselves referred to a hospital by a Mayne Nickless corporate medical centre, staying in a Mayne Nickless hospital, visiting a Mayne Nickless radiology or pathology clinic and consuming Mayne Nickless drugs," the study points out.

The authors note that in countries like the USA, health corporations draw financially from personal insurance contributions for private health cover. In Australia however, healthcare corporations have tapped into a much more lucrative source of funding for their expansion – Medicare. In fostering a process of corporate control of the healthcare sector, Australian governments have increased opportunities for large corporations in the private sector to draw upon public funds.

A series of case studies of hospitals, general practice, radiology and pathology now in the report shows that this means direct transfers of public money to private-for-profit corporations, whose bottom line is the return to

investors rather than the delivery of services to the sick.

The study also found that corporate medicine undermines the integrity of teaching and research institutions. Through control of the research and teaching institutions the corporations are better able to direct research towards profit-making technologies and to control professional research and training.

In addition, government control over health standards is diminished. The study notes that: "Governments may for example develop legislation aimed at limiting over-servicing and outlawing practices such as fee splitting and kickbacks ...[but] national

Despite widespread presumptions to the contrary, privately owned or run hospitals are not more efficient, nor do they reduce the budget burden of government.

legislation is made irrelevant and impotent once responsibility for services is handed over to the private sector".

The report call on the medical and healthcare professions and the Government to make a decisive policy response to the issues raised in the paper.

Clive Hamilton

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Private Insurers' Healthy Subsidy

In October the Institute released an updated analysis of the distribution of expenditure on the 30 per cent private health insurance rebate. The study generated considerable controversy, as Pamela Kinnear reports.

The study by Australia Institute Senior Research Fellow Julie Smith, *How Fair is Health Spending?* updated and confirmed last years' findings that the impact of the 30 per cent rebate on private health insurance is highly inequitable. It also diverts much-needed funds away from the public health system.

The study showed that half of the present open-ended subsidy for private health insurance goes to the top 20 per cent of taxpayers and nearly three-quarters goes to the top 40 per cent. The rebate subsidises ancillary health and lifestyle services such as cosmetic surgery, massage therapy and gym memberships. Within two years, the scheme is projected to cost the budget almost \$3 billion per annum.

Contrary to the Government's stated aim of encouraging more people to provide for their own health care, the 30 per cent rebate has not been responsible for a large increase in membership of private health funds. The growth of private fund membership has been due to the deregulation of health funds and the introduction of life-time health cover rules.

Industry outraged

As might be expected, the Institute's study drew sharp criticism from the private health insurance industry which is desperate to protect its \$2+ billion public subsidy. A few days after the study was released Russell Schneider, CEO of the Australian Health Insurance Association attacked the findings in the *Australian*

Financial Review. Calling the study an 'atrocious piece of propaganda', Schneider claimed the study was based on shaky methodological foundations and failed to take account of a range of issues, including the fact that the scheme allows more people on low incomes to access private hospitals and services and that some of the 20 per cent of 'high income' beneficiaries in fact have incomes less than \$50,000.

Julie Smith responded to the attack, maintaining that Schneider's allegations misrepresented the study and were based on an incomplete reading of the report. None of his criticisms, she argued, undermined the central finding that the scheme was a highly inequitable subsidy that could also not be justified according to the criteria of fairness, efficiency, effectiveness or administrative cost.

Some health insurance schemes cover the cost of buying running shoes or trainers. Why should the tax payer subsidise a wealthy family that buys a \$200 pair of Reeboks for their teenager?

Smith argued that the promise of the scheme for low-income earners had not been realised, with many forced to take out insurance but remaining unable to use it because they could not cover 'gap' payments. She concluded that the tactics chosen by Schneider's industry were not only reprehensible and dismissive of serious academic inquiry, but demonstrate what is considered necessary to maintain its multi-million dollar public subsidy.

COTA intervenes

The attack by Schneider drew out others in defense of the Institute's study. The Council on the Age-

ing (COTA) supported the Institute study as credible and 'well researched'. In an article in the AFR (5 November), the Executive Director of COTA, Denys Correll, maintained that the health rebate has done nothing to solve the problems of access to hospital and health services that older Australians consistently report.

He said that his members regularly complain that no matter how long they have been paying for private health insurance, private hospitals regularly overlook older people who need hospitalisation for chronic conditions in favour of more profitable surgery patients. Correll's arguments had special resonance as a few days earlier the Victorian AMA had made sensational claims about private hospitals 'skimming off' profitable surgical patients and rejecting the unprofitable medical patients who occupy hospital beds for too long.

Correll argued that better ways must be found to secure a fair mix of public/private use of the health system and supported the Institute's call for capping or means testing the rebate.

In the *Courier Mail* a practising doctor claimed that in his experience, very few people on low incomes can afford to pay for private health insurance and suggested that the motivation for Schneider's attack was clearly to protect the subsidy provided to the 'bloated and inefficient' private health insurance industry, no matter how unfairly it is distributed. ■

Doubting Democracy

When the Australian Financial Review published an opinion piece by John Quiggin on the anti-democratic opinions expressed by people associated with right-wing think tanks, it provoked furious responses from some of those he named. Here we reproduce Quiggin's article, with a post-script.

As the public service has been contracted and politicised in Australia over recent decades, the task of developing policy ideas has increasingly been left to private institutes or 'think tanks'. To understand the debate on any policy issue today, the first requirement is to identify the key think tanks.

In the case of the Howard government's education policy, the tank to watch is the Centre for Independent Studies. The intellectual rationale for the process of marketising and corporatising education and research has been put forward by Andrew Norton, former advisor to education minister David Kemp and now a Research Fellow at the CIS, and by 'enterprising' Vice-Chancellors such as Lauchlan Chipman and Steven Schwartz, both of whom are listed by the CIS as academic advisors.

Hayek's 'real' democracy

The CIS has a more impressive intellectual pedigree than its main rivals, the web of Melbourne-based organisations emanating from the Western Mining Corporation (Adam Smith Club, HR Nicholls Society, Lavoisier Group, Samuel Griffiths Society and so on). Its founder, Greg Lindsay, is vice-president of the Mont Pelerin Society, the free-market conclave founded by Nobel Laureate FA von Hayek.

Given this lineage, it is unsurprising that the CIS is sceptical about democracy. If liberal, free-market, institutions are the basis of a good society, but the majority of the public cannot be trusted to support them, power must be placed in the hands of a reliable

minority. Hayek opposed what he called 'dogmatic democracy'. He suggested denying the vote to government employees and recipients of welfare benefits, as a possible first step towards a system in which voting was restricted to male property-owners over forty. In claiming to support 'real' democracy, while opposing democracy as the term is normally understood, Hayek was at one with the 'people's democracies' he condemned.

Kasper's ghost

In a recent CIS publication, entitled *Building Prosperity*, CIS Senior Fellow Wolfgang Kasper endorses many of Hayek's proposals for the curtailment of democracy. He canvasses unspecified 'formal qualifications on the active right to elect' and suggests that large classes of citizens should be prohibited from standing for public office. It is a pity that other advocates of the imposition of free-market policies on an unwilling public are not as explicit on this point as Kasper.

It is not surprising to find that a body with the pedigree of the CIS wants to curb democracy. It is more surprising that a nominally liberal body should be opposed to freedom of speech. Of course, everyone is more eager to defend the freedom of their friends than that of their enemies. As Paul Samuelson noted, the Mont Pelerin society was conspicuously silent during the McCarthy era.

The CIS, however, is opposed to freedom of speech in principle as well as practice. The issue has come to the fore in the corporatised universities, which have sought to muzzle academics who have criticised corporate practices (for example at Melbourne University and the Victoria University of Technology) or antagonised influential figures in areas such as health policy



Reprinted with kind permission of *The Australian* (La Trobe University) and the environment (James Cook University). A favored strategy has been the development of 'codes of ethics' which include restrictions on public comment deemed inappropriate by university management.

Steele banned

A CIS piece published in *The Australian* by Murdoch University Vice-Chancellor Steven Schwartz a few months ago addressed the case of Ted Steele, the academic sacked by Wollongong University for his

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attacks on grade inflation, now rampant in Australian universities. Schwartz rejected the classical liberal idea that the best remedy for speech that may be regarded as wrong is more speech. Instead he argued that university managers had the right, and duty, to impose their own ethical standards on academics. Schwartz raised such fanciful possibilities as flat-earth geographers and Nazi anthropologists, but carefully avoided discussing the real issues.

Schwartz hastens to reassure us that he is not in favour of indiscriminate suppression of academic speech, but this is scarcely encouraging. With the exception of Trappist monasteries, no-one wants indiscriminate suppression of speech.

The whole point of political censorship is to suppress speech discriminatingly. Schwartz has said that he is happy to be called dictatorial, as long as he is not described as a poor communicator. As he is surely aware, the first principle of dictatorship is to maximise the output of supportive communication (a.k.a. propaganda) while suppressing criticism.

Freedom of speech, in universities, public spaces and elsewhere, is ultimately incompatible with privatisation and unfettered freedom of action for corporations. The CIS has faced this issue squarely, and decided in favour of the corporation.

Postscript

My comments on the relationship between free markets and free speech have aroused plenty of debate. First, I owe an apology to the Adam Smith Club. The Club's major public function this year was a speech by Mr Ray Evans, executive officer of Western Mining Corporation, President of

the H.R. Nicholls Society, Secretary of the Lavoisier Group and the Bennelong Society, and Treasurer of the Samuel Griffith Society. Based on this fact, and the similarity in naming style, I mistakenly inferred that the Club was part of the WMC network of 'front' groups. The Adam Smith Club is an independent body.

Second, I should observe that while advocating some Hayekian restrictions on democracy, Kasper also puts forward proposals for citizen-initiated referenda that are supported by democratic arguments and quite inconsistent with Hayek's distrust of tempo-

rary majorities. It appears that Kasper's main objections are to Parliaments rather than to democracy per se.

I'll leave the last word on the topic to FA von Hayek himself. In 1981, when the market-liberal Pinochet dictatorship was at its height, Hayek's Mont Pelerin society held its meetings in Chile. In an interview with the pro-Pinochet paper *El Mercurio* (19 April 1981), Hayek observed: 'My personal preference inclines to a liberal dictatorship and not to a democratic government where all liberalism is absent'. ■



Institute Brochures

We have some new-look Institute brochures available. If members would like a handful to pass to friends and colleagues please ring Aine on 02 6249 6221 or email mail@tai.org.au

Do you have any comments or suggestions about the Institute newsletter? If so, send us an email at mail@tai.org.au

ACT 'free' school bus scheme scrapped

In our September newsletter we reported the results of our study into the \$27 million 'free' school bus scheme established by the ACT Liberal Government – a scheme that would mostly subsidise private school students from wealthy families. The scheme began operating on 11 September but the newly elected Labor Government will abolish it at the end of the current school year. Instead, the Government will introduce a new means-tested bus subsidy. Remaining funds will be redirected towards professional development for teachers, information technology and further reductions class sizes for Kindergarten to Year 3. How the remaining funds will be allocated across the education budget is still being considered by the Government.

Climate of Hypocrisy at CHOGM

In the lead-up to the Commonwealth Heads of Government Meeting at Coolom next March, the Institute has released a paper entitled *Climate Change and Commonwealth Nations*. The paper has been in strong demand overseas, suggesting that Prime Minister Howard may be in for a rough ride. Hal Turton, one of the authors of the report, outlines the case.

In his 1999 address to the UN General Assembly, the then Commonwealth Secretary-General spoke of the vital need 'to avert serious environmental threats like climate change and sea-level rise' and called for the Kyoto Protocol to enter into force as soon as possible, a call repeated at CHOGM in Durban that same year.

The Secretary-General issued this call because failure to act on climate change would be clearly contrary to the principles of the Commonwealth. According to the Singapore and Langkawi Declarations, the Commonwealth is committed to achieving 'a more equitable international society' and protecting 'the environment through respect for the principles of sustainable development.'

The members of the Common-

wealth have also committed themselves to 'co-operating in the common interests of their peoples.'

Climate change is expected to have a severe adverse impact on the majority of Commonwealth countries, especially developing country members. The combined effects of reduced crop yields, rising sea levels and the spread of tropical vector-borne diseases is expected to have a major impact on poorer Commonwealth countries that are least able to protect themselves.

By contrast, developed Commonwealth countries (Australia, Canada, New Zealand and the United Kingdom) are expected to suffer fewer adverse effects from climate change. They are also sufficiently wealthy to respond and adapt. Yet some rich Commonwealth countries – notably Aus-

tralia and Canada – have shown no concern and have effectively abandoned poor countries to their fate.

Who's responsible?

On a per person basis, greenhouse gas emissions in Australia and Canada are far in excess of those of the countries most at risk of climate change. Australia's are the highest in the industrialised world, and more than 20 times those of India.

Yet in its approach to international climate change negotiations, Australia has consistently attempted to sabotage and water down the Kyoto Protocol with no regard for the future well-being of the poorest and most vulnerable members of the Commonwealth.

While Australia's Prime Minister, John Howard, makes grand statements about the need to 'bridge the gap between the less fortunate in the world and the more fortunate', his actions mean that the poorest members of the Commonwealth will bear the costs of climate change.

By such actions Australia is working against the 'common interests of Commonwealth peoples' and is undermining efforts to achieve 'a more equitable international society', both key Commonwealth principles.

At CHOGM, other Commonwealth members, particularly those threatened by climate change, would have strong moral grounds to call for Australia's suspension from the Commonwealth until it ratifies the Kyoto Protocol. ■

Screw you Tuvalu

The BBC reported in early October that the Australian Government has refused to consider pleas from the Tuvaluan Government to accept environmental refugees expected to be displaced by rising sea levels.

A senior official from Tuvalu, Mr Paani Laupepa told the BBC:

"While New Zealand responded positively in the true Pacific way of helping one's neighbours, Australia on the other hand has slammed the door in our face.

"Its justification is to compare Tuvaluans with the asylum seekers trying to enter Australia illegally."

Responding to the story on Radio Australia, Immigration Minister Phillip Ruddock dismissed the world scientific consensus on sea-level rise as "speculation" and argued that accepting environmental refugees from Tuvalu would be "discriminatory" and akin to a return to the White Australia Policy.

The Governments of New Zealand and Tuvalu are expected this month to announce an agreement under which New Zealand will accept environmental refugees from Tuvalu over the next decades.

Clive Hamilton

Cold Shower for Allen Consulting

Despite the political banter, it was difficult to distinguish between the environment policies of the Coalition and the Labor Party going into the election – until Labor announced that it would ratify the Kyoto Protocol. At about the same time the Institute published a discussion paper entitled Regional Employment and Greenhouse Policies. Paul Pollard, one of the authors, reports.

The Coalition attempted to capitalise on Labor's decision to commit to ratification of the Kyoto Protocol by fuelling its long-running scare campaign on what ratification would mean for jobs in regional Australia.

The ammunition for this scare campaign was provided by a report published in October 2000 by the firm Allen Consulting, paid for by the Minerals Council and four large mining companies. This report used economic modelling to claim that meeting the Kyoto target would mean significant economic loss for Australia, but especially for regional Australia.

It claimed that 'over 50 000 jobs to be lost in regional Queensland', and 'employment would decline by over 8% in the Latrobe Valley and the Fitzroy region in Queensland'.

The report was heavily promoted in political circles and received extensive and uncritical coverage in newspapers. Its value as a bogey was underlined by its use during 2001 by Industry Minister Senator Minchin in several press releases on climate change. Minchin had emerged as the Government's leading nay-sayer on climate change.

The Allen Consulting report is perhaps the least credible piece of economic modelling on climate change ever carried out in Australia, which is saying something. It is a case study of the old problem of GIGO – garbage in-garbage out.

The Institute's analysis identified several crucial mistakes in the modelling. The main ones are as follows.

- The report attributes all claimed job losses to 'Australian compliance with Kyoto' when in fact most of the forecast losses are due to actions which would be taken outside Australia whether Australia complies or not;

- It assumes (without ever clearly spelling this out) that greenhouse policy would include a 'belch tax', a tax on methane emissions from farm animals, leading to large falls in agriculture, a measure which is unnecessary and fanciful;
- It completely ignores the two large and obvious low- or no-cost ways of Australia meeting its target – ending land clearing and using energy efficiency – thereby pushing up the total economic costs;
- It ignores a 'realistic policy mix' for meeting the target, including reducing land clearing, which Allen Consulting itself promoted in an earlier report.

range of low-cost emission reduction opportunities available in Australia (see box).

The Institute's paper was widely circulated and was used by some Labor candidates in defence of the decision on ratification. It did not, however, prevent Government ministers from continuing to repeat the absurd figures in the Allen Consulting report.

This was despite the fact that at a conference in Adelaide in mid-October the principal author of the report, Jon Stanford, recanted, saying that his results were no longer valid and that Australia would find it cheaper than other countries to reduce its emissions.

Abatement costs and scale for different activities

	Abatement cost (\$/tonne)	Abatement (2009-10) (Mt)
Energy efficiency	<0	80
Land clearing	<2	60
Enteric fermentation	<7	21
Cogeneration	-5-15	40+
Forestry	5-30	~90
Renewables	2-40	substantial

Note that Australia's task under the Kyoto Protocol is to reduce emissions from current levels in the commitment period 2008-2012 by around 110 million tonnes (Mt) below expected levels, a target that could easily be achieved by the ending of land clearing and exploitation of energy efficiency opportunities.

The large job losses predicted by Allen Consulting were mostly fictitious. In fact climate change measures are likely to result in substantial job creation in regional Australia, as it has innate advantages for the location of most renewable power sources such as wind, solar and biomass energy, and for new opportunities such as gas cogeneration.

The Institute's paper set out and quantified, for the first time, the

It is worth noting that the Coalition did not do particularly well in some electorates where the greenhouse scare campaign might have been expected to be effective, including McMillan in the Latrobe Valley and Hinkler in Queensland, which incorporates the Gladstone aluminium industry. ■

Nobel Laureate Encourages Global Justice

Joseph Stiglitz, whose critiques of free market fundamentalism cost him a senior job at the World Bank in 1999 but won him the Nobel Prize for economics this year, has succinct advice for the global justice movement: Keep it up. Tim Shorrocks interviewed Stiglitz for Malaysiakini, an independent Malaysian internet news service.

During the Clinton administration, Joseph Stiglitz served as chairman of the Council of Economic Advisers and was later appointed chief economist of the World Bank. There, he earned the wrath of then Treasury Secretary Larry Summers, the administration's chief proponent of the IMF, by publicly criticising the fund for bailing out rich investors and driving Asia into a depression during the financial crisis of 1997 and 1998.

The Bank fired him, reportedly on Summers's orders, in 2000. 'The recognition that the trade agreements of the past have been unfair is one of the important lessons of the anti-globalisation movement,' says Stiglitz. 'I think it's something that will stick with us. And if we go forward with another round of trade talks, it will shape our discussions.'

The United States and other rich countries should follow Europe's 'everything but arms' agreement by opening their markets to the least developed countries (LDC) and say, for the poorest countries, 'we aren't going to wait for a round of trade. To show our good faith, we will commit ourselves to the poorest countries, opening up our markets immediately'.

'It's not a question of negotiation. The amount that it would hurt the developed countries is so small,' he adds. 'It would provide an opportunity for them (the LDC) to produce something with a market.'

As for the International Monetary Fund (IMF), which Stiglitz has rebuked for its myopic focus on 'old problems' like inflation, he proposes a new direction that would return the institution to its post-World War

II mission of addressing real-world problems, such as the recession that has deepened since the events of September 11.

Imperfect information

'It's time for the IMF to worry about the global economic slowdown and provide the liquidity that would allow for global expansion,' Stiglitz says. He urges the IMF to target the substantial funds it controls towards 'global economic needs' such as the 'fight against terrorism, the fight for a better global environment, the fight for a more equal world that would reduce the disparities between the haves and the have-nots'.

Stiglitz's advice and analysis will receive more attention now that he, along with US economists George Akerlof and Michael Spence, has won the 2001 Nobel Prize for economics. The award, announced on October 10 in Sweden, was made for their research in the 1970s and 1980s showing that markets, when mixed with imperfect information, fail to allocate resources fairly. Governments, they concluded, have an obligation to address this problem by playing a stronger role in the market system.

He says he first became aware of the imperfections of markets while working as an economist in Kenya in the 1960s.

'The period that I spent in Kenya really provided a lot of inspiration for the work that I did over the subsequent years,' he says. 'You cannot live or spend time in a country like that without thinking a great deal about unemployment, about how markets don't

work. And it turned out that many of the ideas that I developed in Kenya, when modified, applied as well to developed countries.'

Stiglitz explains the relationship between his theories and his analysis of the Asia crisis thus: The crisis was sparked when banks refused to roll over loans in 1997 to South Korea and Indonesia. 'That was a financial market imperfection caused by information,' he says. 'So the credit markets were not working well. The economics of information provided an explanation for why that was the case.'

Market fundamentalist ideas

Asked what he would say to Summers and IMF and World Bank officials who disliked his critique of the so-called 'Washington consensus' on market liberalisation, Stiglitz chuckles at 'the irony' of the situation.

'In the 1970s and 1980s, the period for which I got the prize, there was an increasing recognition of the problems of the market fundamentalist model,' he says. 'The Washington consensus, which was based on market fundamentalist ideas, lived on as an institutional position and became solidified, just when academia was saying these ideas do not provide a good description of the economy.'

Stiglitz says the George W. Bush administration has recognised that the IMF bailout policies did not work and were, in effect, 'corporate welfare' for investors funded 'by taxpayers not in the United States but in Russia, Brazil and other countries, who

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INSTITUTE NOTES

New Publications

- *Population Ageing: Crisis or transition?*, Pamela Kinnear, Discussion Paper No. 45, December 2001
- *With Friends like Bjorn Lomborg, Environmentalists Don't Need Enemies* by Clive Hamilton and Hal Turton, a critique on *The Skeptical Environmentalist* by Bjorn Lomborg, November 2001
- *Corporate Control of Healthcare in Australia*, Fran Collyer and Kevin White, Discussion Paper No. 43, October 2001
- *How Fair is Health Spending? The distribution of tax subsidies for health in Australia*, Julie Smith, Discussion Paper No. 42, October 2001
- *Regional Employment and Greenhouse Policies*, Clive Hamilton, Alan Pears and Paul Pollard, Discussion Paper No. 41, October 2001
- *Climate Change and Commonwealth Nations*, Paul Pollard, Hal Turton and Clive Hamilton, Discussion Paper No. 40, October 2001

Forthcoming Publications

- *The Aluminium Industry: Structure, market power, emissions and subsidies*, Hal Turton, Discussion Paper No. 44, December 2001

Staff News

- Julie Smith has left the Institute to pursue other interests.



The Staff and Board of the Institute would like to wish all Members and Friends a very Merry Christmas and a happy and peaceful New Year.

Nobel Laureate ...from page 11

ended up paying the bills (for the people doing the bad lending'.

But recent actions by the Bush administration, he adds, underscore that 'special interests do have a lot of influence' in Washington. Specifically, he criticises the administration's decision earlier this year to investigate whether imports have injured the US domestic steel industry, an action that is likely to lead to import quotas on foreign steel.

'You can't help but raise questions when someone says 'I believe in a market economy' and then announces he wants to set up a global steel cartel,' he says.

Global outrage

This is why the issues raised by the anti-globalisation movement are so important, Stiglitz says. He points to the pharmaceutical industry, which became the target of developing countries and anti-globalisation critics for selling life saving drugs at prices that ordinary people and the poor could not afford. Agreements proposed by the US Trade Representative would have supported the companies' pricing policies, he adds.

'The global outrage was so strong that they (the companies) made an agreement to make them available,' he told *IPS*. "It was a global outrage, a civil society movement, that stopped that.'

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The Australia Institute

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