

For good measure

In their paper, Agriculture and Emissions Trading: The impossible dream, Hugh Saddler and Helen King discuss the reasons why agriculture will not fit comfortably into an emissions trading scheme.

The discussion paper by Dr Hugh Saddler and Helen King entitled *Agriculture and Emissions Trading: the impossible dream?* was released by The Australia Institute in late October and generated a great deal of interest from many different groups of stakeholders, both in Australia and overseas. The feedback only served to highlight the disparate views about imposing emissions trading on to the agriculture sector.

The thrust of the paper refutes the suitability of including agriculture in an emissions trading scheme (ETS) or, as it will be called in Australia, the Carbon Pollution Reduction Scheme (CPRS). There are several reasons for this.

The amount of agricultural emissions depends on a number of factors, many of them not human-induced.

1. It is very difficult to measure agricultural emissions with any reasonable degree of accuracy or cost-effectiveness. Yet, in order for an ETS to be robust and credible, measurement of the emissions traded needs to be accurate and cheap in order to provide a level of comfort for those operating in the market. Emissions need to be fungible, that is commercially interchangeable, so that a tonne of carbon from one source (say coal-fired power) can be traded for a tonne of carbon from a different

source (say, methane from the digestive systems of animals). But measuring methane from animals is an imprecise science, to say the least. Including estimated emissions in an ETS would not provide the level of certainty necessary for market credibility and would fail to send the right price signals.

2. The nature of agricultural emissions themselves makes it difficult for farmers to establish practical abatement systems. The three main gases produced from agricultural enterprises are carbon dioxide, methane from the digestion systems of livestock and nitrous oxide from chemical processes and microbial activity in agricultural soils. They are generated, to a large extent, by natural phenomena totally outside management control. The amount of agricultural emissions depends on a number of factors, many of them not anthropogenic (human-induced) in nature. Under these circumstances, including agricultural emissions in an ETS is effectively a tax on production, because farmers will find it difficult to lower their carbon emissions as a result of price signals due to the fact that the options open to them for doing so are limited.

3. In order to reduce the administrative burden of the CPRS, the Government has elected to include only those polluters emitting more than 25 kt CO₂-e per year. The agriculture sector is made up of 130,000 predominantly small businesses, which collectively emit 16 per cent of total Australian emissions,

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Reclaiming your time from the telemarketers

Everybody has a story to tell about telemarketing. Sales calls at dinner time, often from overseas and sometimes using a recorded message, are infuriating. Josh Fear examines a modern scourge.

Telemarketing is one form of 'direct marketing', along with junk mail, spam and face-to-face marketing. Direct marketing differs from 'traditional' advertising in making a much stronger claim on our attention. We can switch off the television or the radio if we find an advertisement too annoying, but it is virtually impossible to avoid intrusive marketing altogether.

Telemarketing was recently identified as the most annoying event or situation by the Australian Psychological Society.

The direct marketing industry in Australia is big business, spending around \$12 billion per year—or more than one per cent of GDP. According to the Commercial Economic Advisory Service of Australia, in 2005 695,430 people worked in direct marketing, including 229,000 in telemarketing, 184,000 in catalogues and 217,000 as 'stuffers' (that is, envelope stuffers). If these figures are correct, there are more people working in direct marketing than there are school teachers, nurses and doctors combined.



Telemarketing is the target of a great deal of public criticism. More than one billion telemarketing calls are made in Australia each year, and telemarketing was identified as the most annoying 'event or situation' in a recent study by the Australian Psychological Society.

Responding to community concerns, in May 2007 the Australian Government established a Do Not Call (DNC) Register to enable members of the community to opt out of unsolicited phone calls. However, under the new system some organisations (including charities, political parties and companies with 'inferred consent') can continue to make such calls.

In fact, Australia's response to telemarketing is more relaxed than India's, where exceptions to its Do Not Call regulations apply only to messages 'relating to charities, national campaigns or natural calamities transmitted on the directions of the Government', and messages 'in the interest of the sovereignty and integrity of India, the security of the State, friendly relations with foreign States, public order, decency or morality'.

A distinctive feature of telemarketing in the US is the use of prisoners to conduct telemarketing work. One telemarketing manager said he hired prisoners because 'I need people who are there every day', although the real reason seems to be that prison labour is cheap. Telemarketing earns inmates less than \$2 a day in the US.

Some people will go to great lengths to avoid being 'marketed'. They buy answering machines or caller ID devices, disconnect their phone altogether, display 'No Junk Mail' signs, send junk mail back to its source, and cross the road when a marketer is in their path. Millions of people have joined the DNC Register, and many

take every opportunity to 'unsubscribe' from mailing or emailing lists.

Direct marketers spend around \$12 billion per year in Australia.

We asked some members of The Australia Institute to describe their experiences with direct marketing. Their comments (some of which are reproduced on Page 3) confirm that there is a great deal of negative feeling in the community about direct marketing. This resentment stems from the invasion of personal space (including that most personal of spaces—our homes), the use of personal details without permission, the waste of precious time, and the sheer absurdity and futility of much direct marketing.

Member comments also revealed frustration about other forms of direct marketing. Residential letterboxes continue to receive massive amounts of junk mail, even where a 'No Junk Mail' sign is displayed, and real estate agents are identified as common culprits. In addition, the increasing use of face-to-face marketing techniques in public spaces, shopping centres and other busy areas is changing the way that we perceive and interact with other people outside of home and work.

As well as talking to members about their experiences with direct marketing, we conducted an online survey of 1,000 Australians to explore community attitudes to telemarketing and to measure the impact of the DNC Register since its introduction.

The findings show that Australians, on average, receive 8.5 unsolicited telemarketing calls per month, and the

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Intrusive marketing

The Australia Institute conducted a survey of some of its members on the subject of telemarketing and junk mail to assist its research. Here are a selection of comments that were made during that survey.

There are people who enjoy having telemarketers call because they're lonely. I'm not one of those.

I am a bit ashamed to say but whenever there is a lengthy delay after the phone rings and I pick up and a sub-continental voice comes on, I hang up immediately. I feel guilty about this because sub-continental call centres are relatively good jobs in these areas and they are just trying to make a living.

One of the main reasons I gave up my landline was the intrusion of telemarketing. This strategy worked well and in the end saved me a lot of headaches and money. ... I hate telemarketing with a vengeance.



Once I got so angry with repeated calls in one day that I slammed down the phone and broke it. This obviously fixed the problem in the short term.

The worst but easiest to handle are the recorded voices, for example telling you that you have won a prize. Obviously some people fall for this nonsense, a depressing thought.

Telemarketing infuriates me. I hang up in their ear before they can get going. The only exception is when I find it is the Wilderness Society or Amnesty who are doing it—which tests my loyalty to these wonderful organisations rather severely.

One way to combat junk mail is to send the stuff back in their own return envelopes—you chuck all the junk mail in there.

From an environmental and consumer perspective, I hate [junk mail]. In this age, when we should be concerned about natural resources, I find it offensive that companies do this to me. I don't even look at it. It goes straight in the recycling.

My No Junk Mail sign works with everyone but real estate agents. They say it's not junk, it's information. I've had a lot of arguments with real estate agents over this.

With regard to public/street spruikers, I find that they present one of the rare situations when being disabled offers an advantage. I walk with a stick and need to watch the ground to maintain my balance and movement. I thus completely ignore them and focus on the task of ambulating. If they are particularly aggressive or insistent (which is very unusual), the accidental placement of the stick on a foot or instep tends to be useful.

I'm fed up with the government pretending they're not in the business of regulating, and bowing to corporate pressure. They can find a way to generate business without ringing me up or spamming me or sticking things in my letterbox. They're clever. They can figure it out.

They ask 'How are you' which annoys me as they could not care less. I do not answer but when they ask again, I reply 'eighty and dying' (which is nearly true) and they get off quite quickly.

Spare parts

Research Fellow Hilary Bambrick is researching the attitudes of Australians towards the supplying of body parts for payment and asks: 'Would you sell a kidney to save the life of a stranger?'

In May this year, transplant specialist Gavin Carney caused a media frenzy by suggesting that healthy young people should be able to sell a kidney. There's a serious shortage of donor organs in Australia, and Australia falls well behind other countries.



and too entrenched. It promotes only 'pure' altruistic motivations for donation and, in the case of live donation, affords too little recognition of the real physical and financial costs (six weeks off work, for example). Nor does it allow enough room for recognising wider motivations, in particular financial incentives.

Dr Carney and other proponents of paid donation expect that offering a substantial amount of money for a kidney will decrease the waiting list and reduce the number of desperate patients travelling overseas to obtain a transplant. These people also increase their chances of infection and other complications. However, if paying people for one of their kidneys would it actually increase the number of donors?

Sydney's rental crisis when she's older'.

For this dad, there was no question about either the dollar value of his kidney or that money would motivate him. But how many other Australians feel the same way and should it even be permitted?

We recently conducted an internet survey of 1,000 people (nationally representative by age, sex and state) about a whole range of social and economic issues. We included questions on the buying and selling of organs in order to get a picture of real community attitudes to putting body parts on the Australian market. Half the respondents to the survey reported that they were registered organ donors. Seventy percent were against the idea that Australians should be able to sell an organ while 20 per cent were in favour.

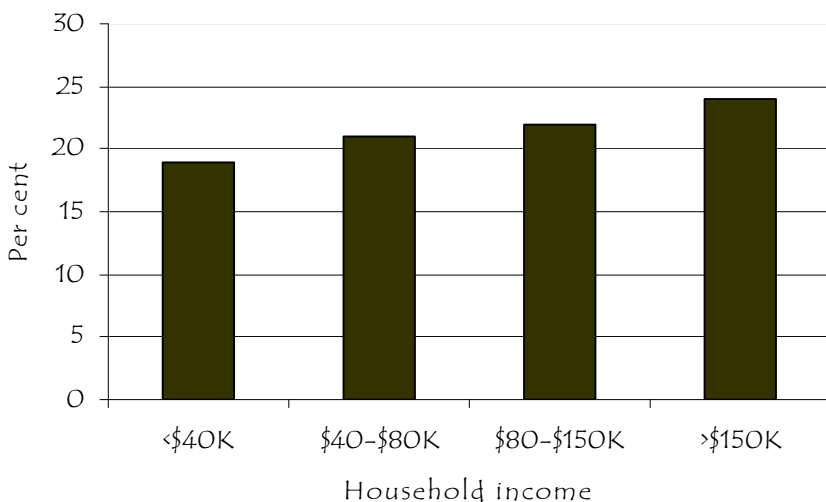
In September, the Federal Government announced a \$151 million advertising and counselling campaign to boost organ donation; if it works, it will increase donations by 50 per cent to 15 donations per million people. This is half the rate achieved in Spain.

On the day after the original reporting of Dr Carney's comments, there was a large photo on Page 1 of the *Sydney Morning Herald* showing a dad on the beach with his two-year-old daughter. The headline read: 'Please, buy my kidney to secure her future'. The dad said he would readily sell a kidney to purchase ballet lessons for his daughter and considered that the money would 'help her to avoid

Seventy per cent of respondents rejected the idea that Australians should be able to sell an organ.

The focus of the new approach has been criticised as being too narrow

Per cent of respondents by household income who think it should be acceptable to sell the organs of dead relatives



Although an overwhelming majority of respondents thought that introducing a payment would entice *other people* to become live organ donors of a kidney, nearly half thought that they themselves would be *less* likely to donate if they could be paid for doing so. Only 11 per cent thought that a payment would make them more likely to donate an organ.

Respondents were largely against the proposition that families should be able to sell the organs of relatives who had died (80 per cent), while 20 per cent were in favour. Male respondents were more likely to be

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Truth in advertising

On 2 July this year, the Rudd Government released new guidelines, which will govern the practice and content of government campaign advertising. Recently, Kathy MacDermott's study for the Democratic Audit of Australia, *Marketing Government: The public service and the permanent campaign*, was published prompting Leigh Thomas to look at the old regime and the new.

On 2 July 2008, the Labor Government released its Guidelines on Campaign Advertising by Australian Government Departments and Agencies. By doing this, it fulfilled an election promise to curb the more egregious advertising practices that occurred under the Howard Government. The Opposition has scoffed that, in fact, the new guidelines do nothing more than preserve the status quo, perhaps a hint that the status quo was somewhat less than desirable.



Cartoon by Nicholson from "The Australian" newspaper: www.nicholsoncartoons.com.au

Traditionally, there have been two categories of advertising where governments are concerned:

- Political advertising, which sings the praises of the advertiser, is partisan in nature, usually highly 'emotive' and must be paid for by the political party itself;
- Government advertising, a legitimate method of informing the electorate about policies and initiatives that it needs to be aware of. This sort of advertising should be factual, apolitical and is paid for out of taxpayer funds.

'The public service is a lot more conscious now of the need to explain, the need to justify, the need to defend' (John Howard).

Over the past couple of decades, however, the distinction between these two categories has become decidedly blurred. Both the Hawke and Keating governments were guilty of contributing to the general interpretative fuzziness but it reached the level of high art under the Howard Government, especially

during the latter years of its incumbency. Taxpayers contributed to campaigns that were ostensibly government advertising, for example on the GST and industrial relations campaigns, but in reality smacked rather seriously of party political advertising.

This distortion was assisted by an astonishing lack of regulation in the areas of both government and political advertising. Countries such as the US, the UK, Canada and New Zealand regulate such advertising far more stringently than does Australia. Politicians here enjoy a great deal of latitude in how much they spend, where the funding comes from and what they can actually say in their advertisements.

Despite the lack of formal regulation, however, there used to be an understanding that a line separated political advertising and government advertising and directed how each should be managed and paid for. It is estimated that the Howard Government spent over \$1 billion on advertising during the years it held office and for many of its campaigns this line was not observed. Australian taxpayers kindly contributed to the Coalition's 'permanent campaign', which generally went into overdrive as elections neared. In fact, Kathy

MacDermott's study for the Democratic Audit of Australia, *Marketing Government: The public service and the permanent campaign*, finds that in the 2007 election year, the Australian Government outspent Coles, Telstra, Harvey Holdings and Nestlé Australia/l'Oreal to become the highest-spending advertiser in Australia.

There has been an astonishing lack of regulation in the areas of both government and political advertising.

A further failure to observe tradition occurred in the way the Coalition Government involved the public service in its advertising campaigns. According to the APS Values, public servants are responsible for helping to explain the implementation and operation of the policies and programs undertaken by the government but they should avoid any involvement in policy publicity campaigns. They are to remain apolitical and impartial; they are not to 'sell' government policy.

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Spare parts from Page 4

in favour of selling the organs of relatives than female respondents (25 per cent versus 16 per cent), and the acceptability of this proposition increased with household income (see the graph on Page 4).

This preliminary look at community attitudes in Australia suggests that the notion that introducing payment for blood and organs would increase contribution rates might be nothing more than a fantasy; it seems that people tend to perceive others as being motivated more by financial incentives than they think themselves to be.



Also of particular interest is the differential motivation for donating blood and organs displayed by income groups when contemplating

payment. Contrary to past assertions, it seems that those on lower incomes might be less motivated by financial reward than those on higher incomes.

The buying and selling of blood and organs is highly contentious. In addition to looking at the effect financial incentives might have on increasing the supply of blood and organs, The Australia Institute will be examining the public health, economic, social and equity implications of selling body parts in its ongoing research. ■

Truth in advertising from Page 5

However, in the words of John Howard: '[The] public service is a lot more conscious now of the need to explain, the need to justify, the need to defend'. While the need to explain may fit snugly into the APS guidelines, the need to justify and the need to defend do not. Nevertheless, during the Howard Government's incumbency, public servants increasingly became involved in justifying and defending government policy and were even expected to appear in advertisements extolling the virtues of the IR laws and the organisations put in place to regulate them.

It is to be hoped that the new Labor Guidelines on Campaign Advertising by Australian Government Departments and Agencies will redress some of these transgressions. The guidelines are based on those developed by the Auditor-General in 1998 and salient features include:

- The Ministerial Committee for Government Communications and

The guidelines are based on those developed by the Auditor-General in 1998.

the Government Communications Unit, which ran the advertising program for the Howard Government, have been abolished.

- Coordination of procurement contracts and development and implementation of government advertising campaigns will be the responsibility of the Department of Finance and Deregulation, thereby increasing accountability and transparency and encouraging greater efficiency and savings.

- Responsibility for campaign development will be undertaken by the commissioning department with assistance from the Department of Finance and Deregulation and ministers will be briefed on progress.

- Campaign expenditures will be published twice a year.

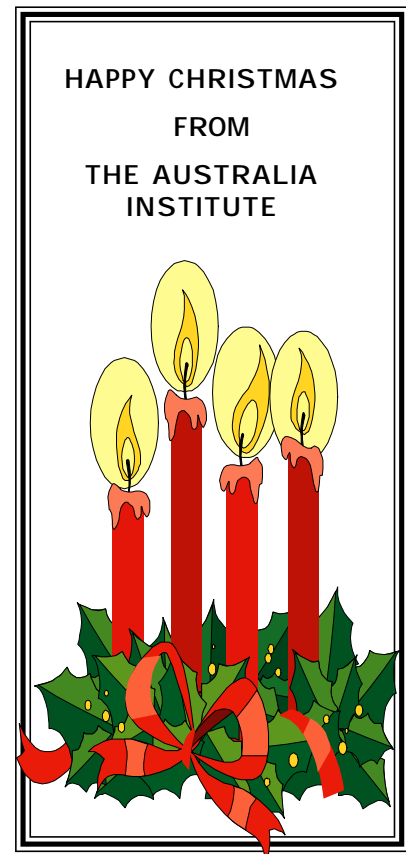
- Government advertising and information campaigns will provide objective, factual and explanatory information free from partisan promotion of government policy and political argument. Political imagery and slogans are banned.

- Politicians and staffers will no longer be able to influence taxpayer-funded ad campaigns.

- Government cannot advertise a proposed election policy as 'government policy'.

- Campaigns over \$250,000 will be scrutinised by the Auditor-General.

Unfortunately, these are guidelines only; they have not been legislated. And while the aspirations are worthy, incumbent governments, once they hit their stride, are apt to lose sight of their initial idealism and lapse into pragmatism. ■



Making super work for all Australians

The Choice of Superannuation Fund policy was introduced in 2005 but it has confused people more than it has helped them. Josh Fear explains how greater choice has been bad for the superannuation system.

How did you decide which superannuation fund was best for you? Chances are someone else did it for you—either your employer or the award that covers your occupation. While some people make active choices about their super, most do little or nothing about it until the prospect of retirement begins to loom large.

Since July 2005, the great majority of Australia's ten million workers have been able to choose their super fund. When it was introduced, the Coalition Government represented the Choice of Fund policy as a major victory for consumers. In reality, the majority of Australians have derived little benefit from greater choice and competition in the superannuation sector.

Low rates of switching between funds raise serious doubts about the effectiveness of the Choice of Fund policy.

Instead, recent changes have benefited only some sections of the community, such as the financial services industry and highly-engaged consumers.

The fact that fewer than ten per cent of workers actively choose their fund should not come as a surprise. The superannuation system is enormously complicated, and people a long way from retirement usually have more pressing things to think about.

The key economic rationale for the Choice of Fund policy was to increase competition for the benefit of fund members. Unfortunately, low rates of switching between funds raise serious doubts about the policy's effectiveness in stimulating competition.

Widespread disengagement on the part of many fund members means



that consumer-driven competition in the super sector is deficient. Instead of competing to attract individual members, funds compete for the attention of intermediaries such as financial planners.

This 'distribution-side' competition imposes additional costs on the super system and explains why Choice of Fund has not resulted in lower fees and better performance.

Choice of Fund is the most recent initiative in a long-term shift towards greater individual choice in a largely compulsory system, yet the principles of choice and compulsion sit uncomfortably together.

Choice of Fund was based on the assumption that consumers are interested in and able to make sensible decisions about their retirement. Compulsion, on the other hand, assumes that most individuals need help to save adequately for retirement. What has been missing is a set of policy arrangements that promote the interests of disengaged consumers.

If workers decline to choose a fund, the choice is made for them. Small businesses in particular find it difficult to nominate the default fund for their employees and often need help in

doing so. Since Choice of Fund was introduced, employers have increasingly seen the selection of an appropriate fund as the responsibility of individual workers.

If an employer chooses the wrong fund—one that has high fees and low returns—workers who are not engaged with their super arrangements may never realise that their retirement savings are not what they could be, at least until it is too late.

Our financial systems have been built on the assumption that consumers are utterly rational creatures who always make decisions in their own best interests. But a new discussion paper from The Australia Institute written in collaboration with the Industry Super Network, *Choosing Not to Choose*, suggests that more realistic behavioural traits such as apathy, procrastination and profound disinterest in financial matters need to play a greater role in determining how the superannuation system operates.

Recent changes have benefited only some sections ... such as the financial services industry and highly-engaged consumers.

Default arrangements are a highly effective policy option because they can improve financial outcomes for those who decline to make an active choice, while retaining flexibility for those who want it.

On a practical level, this means that super funds should be required to meet certain standards before they can be nominated as eligible default funds for workers who choose not to choose.

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Making super work from Page 7

For example, ongoing fees and charges for default funds should be capped at a level determined by an independent body such as the Australian Prudential Regulation Authority.

Choice is only beneficial where people want more flexibility and where they have clear notions of what they want.

Entry and exit fees should be prohibited, since these act as a major barrier to consumer choice and distort competition.

Ongoing fees and commissions for financial advice should be prohibited. If workers are placed in a default

fund, by definition they have not made an active decision about their fund. It is therefore unlikely that they have received any formal financial advice and they should not have to pay for it.

These standards would benefit employees by lowering fees and protecting savings, and would benefit employers by reducing the costs associated with administration and selecting an appropriate default fund.

Maximising choice remains at the heart of superannuation policy in Australia. Yet choice is only beneficial where people want more flexibility and where they have clear notions of what they want. This is evidently not the case for many Australians. Governments therefore have a responsibility to examine how people really behave and to structure policy accordingly. ■

The Australia Institute

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Accelerating renewable energy

Renewable energy infrastructure is going to be expensive and Australia is going to need it soon. In his paper entitled *The tax treatment of capital investments in renewable energy* David Richardson argues that accelerated depreciation will help to get it moving.

Over the next ten to 20 years, a large investment in renewable energy infrastructure is going to be necessary in Australia. Governments need to think about ways to facilitate this investment, as it will be expensive and will take place against a background of rapidly developing technology and changing cost structures. The research paper, entitled *The tax treatment of capital investments in renewable energy*, examines some of the ways the government might help to address this state of affairs.

Allowing organisations to depreciate their assets more quickly than current ATO rules allow is one of the ways discussed. Where investment in renewable energy is concerned, there are several very good reasons for introducing accelerated depreciation of the assets purchased, especially in the initial stages. And with the government

contemplating the introduction of the Carbon Pollution Reduction Scheme (CPRS) in 2010, there will be an added incentive for organisations to switch to renewable energy if they can and a corresponding increase in demand for the infrastructure to provide it.

Depreciation is the process by which the ATO taxes the acquisition of assets. When a company buys a service, the ATO assumes that it will use that service immediately and it will be able to claim the complete cost as a tax deduction at the end of the financial year. However, if the company were to buy a wind turbine, for example, the ATO assumes that the turbine will have an effective life of 20 years. Under current ATO rules, the company will only be able to claim a depreciation expense of one twentieth of the cost each year over that time. So if the wind turbine is priced at \$1 million, the company is able to depreciate \$50,000 each year

until the cost of the asset is completely used up.



Accelerated depreciation would allow the company to expense the complete cost in, say, the first five or ten years rather than over the life of the asset. Organisations would be happy to do this because the more cost that can be written off each year in the early stages of an investment, the greater their after-tax profits will be.

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New top tax rate

The top income earners in Australia pay the same level of tax as those on relatively modest incomes. Richard Denniss advocates a change.

How much do you have to earn to stop being a 'working family' and start being rich? Is it \$100,000 per year or \$150,000 per year?

The Rudd Government has worked hard to avoid answering this question. Such questions are never easy, especially when people start asking follow up questions like 'How many children do they have?' and 'What do you mean by family?'

At the upper end of the spectrum, however, things get a bit easier. While many may have heard that Sol Trujillo was paid more than \$13 million last year, few people probably realise that that means he earns \$250,000 per week, or \$50,000 per day. Not many people have difficulty concluding that such an income is sufficient to make you rich.

While executive salaries have grown spectacularly in recent years, the Australian taxation system has not kept up. The top tax rate of 45 per cent now kicks in at \$180,000 per year, which means that Sol Trujillo is into the top tax rate fewer than four days after the beginning of the financial year.

According to the ATO only 5,605 Australians earned more than \$1 million in 2005–06, the latest year for which detailed data is available. While small in number, these annual millionaires collectively earned more than \$10.7 billion in that same year.

Much is made of the fact that Australia is an egalitarian nation in which everyone deserves a fair go—so much so that we are supposed to be prone to cutting down our 'tall poppies'. This may still be true for those 'elites' so despised by the Howard boosters past and present, but it certainly does not seem to apply to our 'captains of industry'. When it comes to income levels, and income growth, there is nothing egalitarian about the way Australia rewards its CEOs.

But it is not just the distribution of wages and salaries that are so unevenly distributed. In recent years, Australia has been described as the 'greatest shareholder democracy in the world' by those who seek to imply that the benefits of economic growth and, until recently, the growth in the value of the Australian share market, were shared somewhat evenly across society. As the table below from the Commonwealth Treasury shows, the facts are quite different.

To summarise, the table shows that:

- the top one per cent of income earners earns more than twice as much from wages and salaries as the bottom 20 per cent combined
- the top one per cent of income earners earns more than a third (35.7 per cent) of all dividend income in Australia

- the top one per cent of income earners earns 38.6 per cent of all capital gains income in Australia.

While the extreme inequity of the income and wealth distribution shown in the table should be of concern, what is of greater concern is the way that the tax system has changed over time to exacerbate it.

For example, the top marginal tax rate, which by definition is paid by the highest income earners, has shown the most rapid rate of decline over the past decades, falling from over 60 per cent in the late 1980s to 45 per cent today.

While executive salaries have grown spectacularly in recent years, the Australian taxation system has not kept up.

The impact of the reductions in the tax rate for high earners is even more significant where the distribution of income is concerned. The figures in the table show that for every \$1 billion spent on reducing the corporate tax rate, \$357 million ends up in the bank accounts of the wealthiest one per cent of Australians, \$644 million ends up with the

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Estimated distribution of income, by source, 2006–07

	Bottom 20%	Bottom 50%	Top 20%	Top 10%	Top 1%
Salary and wages	2.4	17.6	45.9	28	5.3
Gross interest	8.4	34.7	39.4	28.2	9.4
Dividend income	3.2	11.7	75.2	64.4	35.7
Net capital gain	4.2	13.3	73.7	64.2	38.6

Source: Treasury (2008)

Great ideas for Christmas



Struggling to find presents for friends and family? Dreading another trip to the shopping mall?

Why not give the gift of great ideas this Christmas?

Included in our Newsletter is a gift certificate for six months of free membership to the Institute for you to give to a friend or family member.

Simply pass on the certificate and let us know the details of the person you have nominated.

Thank you for your support this year and your dedication to progressive thinking in Australia.

All of us at The Australia Institute wish you a safe and relaxing festive season.

Accelerating renewable energy from Page 8

The renewable energy industry is capital intensive. It will need vast sums of money to create the infrastructure that is going to be needed for Australia to become more reliant on clean energy into the future. But, unlike current fossil-fuel-driven energy systems, its running costs will be very low. Apart from maintenance, there will be, by definition, no ongoing fuel costs required to power renewable energy sources. Therefore the economics of the renewable energy sector will be driven by capital costs, making depreciation an important component for organisational planning.

Accelerated depreciation would go some way towards providing some

The renewable energy industry will need vast sums of money to create the infrastructure that is going to be needed.

comfort to organisations planning to invest in renewable energy infrastructure. To begin with, as more energy is derived from the renewable energy sector, it is logical to assume that the initial cost of the infrastructure will diminish. The importance of this lies in the fact that no organisation will, under these circumstances, want to be the first 'cab off the rank'. The situation will be subject to a 'first mover disadvantage' as organisations wait and see. But, with global warming accelerating, this situation constitutes market failure and it should not be permitted to endure.

Secondly, technology too will play its part in reducing the cost of renewable energy infrastructure. As the technology develops, more efficient plant will be produced at increasingly lower cost, again creating a situation where organisations will deem it prudent to wait and see what happens. Accelerated depreciation can help in this situation as well. It will make it more attractive for innovative companies to get in first and capture as much of the market

as they can in the initial stages. This is what the government should be aiming for and benign taxation regimes will assist it to get there.

Policy-makers need to recognise that investors in renewable energy will be facing quite profound and unpredictable changes in the value of their assets, changes that are much larger than the expected physical life of their assets would suggest. The introduction of accelerated depreciation provisions would both recognise the problem and encourage increased investment in renewable energy sources.

Of course, unless the government imposes a science-based target as part of the CPRS or finds some way of providing a trading nexus between the 1,000 organisations covered by the scheme and those not covered by it, it will be immaterial how much renewable energy infrastructure is built, because emissions will not fall below the cap imposed by the CPRS. This problem is explained on Page 12 of the Newsletter. ■

Militarism or health services

By John Langmore

A side effect of the global financial crisis is that developed as well as developing countries will be forced to review much more sceptically the claims of their military for increased funding. This should apply to Australia as well where the Australian Government is already spending more on defence than is warranted.

The effect of exaggerating military threats to Australia has been to justify increases in defence expenditure that are larger than necessary.

The Australian Strategic Policy Institute Special Report, *Public opinion in Australia towards defence, security and terrorism*, published in August 2008, concludes that 'support for more defence spending has dropped to its lowest level since the end of the Cold War'. The reason is that '[t]he proportion of voters seeing a security threat to Australia has declined consistently since the late 1960s'.

When, after the 2007 federal election, respondents were asked which issue was most important to them, the environment (including global warming and management of water) was identified as most important by 21.7 per cent; health and Medicare by 20.5 per cent; industrial relations by 16.3 per cent; taxation by 11 per cent; education by 10.5 per cent; interest rates by seven per cent; immigration by 2.9 per cent; and defence and national security by only 2.7 per cent, closely followed by the war in Iraq at 2.4 per cent.

Terrorism was the greatest concern for only 1.8 per cent. It is therefore reasonable to conclude that most voters are far more concerned with improvements in environmental

policies, health services, fair industrial relations and education than with defence. Australia's future security and prosperity is more seriously threatened by climate change, the global financial crisis and potential disease pandemics than by possible military action. As a parliamentary committee concluded some years ago, there is only one country with the capacity to invade Australia, the US, and it has no reason to do so.

The effect of exaggerating military threats to Australia has been to justify increases in defence expenditure larger than are necessary, to the level of over \$60 million a day. What external threat justifies spending \$60 billion on the purchase of sophisticated weapons such as Joint Strike Fighters, destroyers and other military hardware? Does Australia really need far higher military spending per person than Japan, Germany or Canada?

The IMF and World Bank have repeatedly emphasised the importance of minimising military spending so as to maximise outlays that do more to stimulate economic and social development. United Nations summits and global conferences have repeatedly come to the same conclusion.

'Experience has repeatedly shown that the emphasis of the world conferences on minimizing military expenditures is completely justified because of the implications of such spending on the availability of finance for desperately needed human services and infrastructure' (*The United Nations Development Agenda*, ST/ESA/316, New York 2007). Restraining military spending also has the benefit of avoiding provoking retaliatory increases, in the form of an arms-race, by countries in the region.

Additionally, increases in military spending contribute little to the campaign against terrorism. In fact, they may add to the dangers.



Collaboration with the US in the illegal and misjudged invasion of Iraq increased the motivation for terrorist interest in Australia. There are far more cost-effective ways of reducing such risks by contributing to reducing despair, alienation and poverty through the pursuit of equitable development. Restraint of military expenditure would release funds for desperately needed increases in aid as well as for high priority economic and social programs in Australia.

The global financial crisis provides an ideal opportunity to review current defence strategy.

The global financial crisis provides an ideal opportunity to review current defence strategy, starting with a thorough assessment of external threats. This might lead to identifying ways of cutting military outlays, making way for more cost-effective means of defending ourselves, reducing international conflict and releasing resources for constraining greenhouse gas emissions and improvements in higher priority health and education services. What do the majority of Australians really want when the choice is between spending \$22 billion a year on the military or improving the quality of health and education?

John Langmore is a Professorial Fellow in the Social and Political Sciences Department of the University of Melbourne and President of the UN Association of Australia. ■

The floor in the ETS

It is probably true to say that the majority of people do not understand in any great detail how an emissions trading scheme will work. Richard Denniss discusses a major flaw that is not immediately apparent, the floor in the ETS.

The most poorly misunderstood feature of the Rudd Government's Carbon Pollution Reduction Scheme (CPRS) is this: once the government sets a national emissions reduction target it will mean that no matter what action individuals, households or community groups take, the level of Australia's emissions will remain exactly the same.

To restate, once the CPRS comes in, every tonne of CO₂ that households save by installing solar hot water systems, riding bikes or avoiding air travel will simply free up an extra permit, which will enable the aluminium industry, the steel industry or the cement industry to increase their levels of pollution.

It works like this. After emissions trading begins, a family decides to install a solar hot water system on their roof, pack some insulation in their ceiling and use their air conditioner less during the summer. As a result of their efforts, their electricity consumption falls by 30 per cent.

Because of their reduced demand for electricity, the power station that supplies their electricity needs to burn slightly less coal. As the power station has to buy permits for every tonne of coal it burns, if it burns a bit less coal it doesn't have to buy so many permits. This means that, as a result of the household reduction in energy use, there are now some spare



permits that can be sold to another polluter who wants to pollute more.

Unfortunately it gets worse. Not only does a household's reduction in energy use fail to result in a corresponding reduction in total emissions, the main beneficiaries of the household 'doing the right thing' are the big polluters. This is because the price of pollution permits is determined by the level of demand for them; just as prawns get dearer at Christmas time when everyone wants to buy them, permits also get dearer at times when everyone wants to buy them.

So if households all 'do their bit' and reduce demand for energy, the demand for pollution permits will fall and the price of the permits purchased by the big polluters will fall as well. Under the CPRS, households are presumed to spend summer sweating it out without their air conditioners in order to keep the price of pollution permits down.

There is much confusion about how an emissions trading scheme will work, and it is not generally understood that the emissions target set by the Government acts not just as a 'cap', above which emissions cannot rise, but also as a 'floor', below

which emissions cannot fall. Once the government decides to allocate a fixed number of permits to pollute, that is the amount of pollution we will get.

Households can, however, do something to reduce Australia's emissions but it has nothing to do with catching the bus or flying less—households will be able to buy permits and rip them up.

Households will be able to do something to reduce Australia's emissions—they will be able to buy permits and rip them up.

An emissions trading scheme works by issuing a fixed number of permits to pollute, which companies can then buy and sell. Under such a scheme, households, community groups or even companies who want to be carbon neutral can purchase pollution permits and put them in a drawer, rip them up or mount them in a frame on the wall. If people buy permits to pollute and then choose not to use them, there will be fewer permits available for the real polluters. And because, under

A national emissions reduction target will mean that no matter what individuals do, the level of emissions in Australia will remain exactly the same.

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The floor in the ETS from Page 12

emissions trading it is illegal to pollute without a permit, fewer permits mean less pollution.

But buying permits and ripping them up is a bad idea for three reasons. First, it is absurd that the government is preparing to introduce a scheme that says to people willing to spend thousands of dollars on reducing their demand for energy, 'Don't waste your money on that, buy some permits and rip them up instead'.

Second, and more technically, the 'marginal abatement cost' in the household and small business sector is likely to be much lower than the price of CPRS permits. The result is that, as well as being demotivating, telling people to buy permits means that they will actually be 'buying' a smaller reduction in greenhouse gases than if they spent the same amount of money around their homes or in their communities.

The third problem is one of equity—why should households have to pay polluters not to pollute? Over the past ten years we have watched the disaster of the Murray River unfold as, year after year, too much water was extracted. Now the taxpayer is

busy trying to buy back the so-called 'right' to extract water. To avoid having to buy permits back from polluters in the future, we should be careful not to hand out too many in the first place.

Demand for large cars is declining, demand for solar hot water systems is growing and *Carbon Cops* was a top rating TV show. Clearly, millions of Australians want to be a part of reducing Australia's emissions and clearly, millions of Australians will be disappointed when they learn that emissions trading does not supplement their individual efforts—it replaces them.

Fortunately the solution is straightforward. Step 1 is to make sure that the Government goes for an ambitious target based on science, not the five or ten per cent target being pushed by the big polluters.

The second step is to make sure the CPRS is designed in such a way that the efforts of households deliver additional reductions to Australia's greenhouse emissions rather than just freeing up permits for big polluters. This can be done by creating a 'secondary market' for



energy efficiency credits in which individuals, small businesses, schools or community groups who want to 'do their bit extra' are able to capture the benefits of their actions for the environment rather than just freeing up more permits for the big polluters.

Much will be written about the CPRS in the coming months, but little of clarity will be said. For those who are interested in reducing Australia's emissions, the main question they need to ask when evaluating what others are saying is: 'How will that reduce the number of permits in circulation?' If you want to avoid all the pea and thimble tricks, just keep your eye on the number of permits. ■

Agriculture and emissions trading from Page 1

but individually emit far less than 25 ~~kg~~ **kg** CO₂-e per annum. The CPRS proposes to 'upstream' responsibility for carbon emissions from individual drivers, for example, to the oil companies that initially supply the fuel. But there is nowhere to 'upstream' responsibility for carbon emissions from the small businesses that make up the agriculture sector. 'Downstreaming' has been suggested, perhaps to the abattoir or the grain terminal, but the administrative costs involved in taking account of the different practices and emissions patterns of individual farms would be substantial.

The government wants to include agriculture in the CPRS because it sees the market as being the lowest-cost method of reducing emissions. Further,

it considers that the exclusion of agriculture will place a larger burden on those sectors that are included.

Although the authors cast doubt upon the wisdom of believing that agricultural emissions will ever be measured accurately enough for an ETS, they do not suggest that the sector should be exempt from other processes aimed at reducing emissions. The paper explores a number of options for achieving emissions abatement outside an ETS, including:

1. herd management and nutrition where methane is concerned
2. soil and fertiliser management where nitrous oxide is concerned
3. carbon sequestration in both plants and soil and the ways to increase this
4. alternative policy instruments such as levy and incentive payments,

accreditation standards and voluntary markets.

While the Government is eager to include agriculture, but not before 2015, the sector's position reflects its diversity; some sub-sectors consider their inclusion to be self-defeating and are lobbying to be exempted from having to abate emissions at all while others are lobbying for the inclusion of agriculture from the start of the CPRS.

This paper suggests that both sides of the debate are inaccurate: while it might prove counter-productive to include agriculture in a formal ETS, it is imperative that the sector be encouraged to adopt best-practice methods of emissions abatement as soon as practicable. ■

New top tax rate from Page 9

wealthiest ten per cent, and more than three quarters, \$752 million, is captured by the wealthiest 20 per cent of citizens.

It gets worse. Despite decades of trying to simplify the tax system and remove incentives for taxpayers to structure their finances in ways designed to reduce their tax bills, the Howard Government introduced a 50 per cent discount for tax payable on capital gains. What that means is that if you buy some shares for \$1 million and sell them for \$2 million you don't have to pay capital gains tax on your entire \$1 million profit; instead you only have to pay tax on \$500,000 of it.

Again, the Treasury figures in the table show just how much this tax concession benefits the very wealthy, with 38.6 per cent of all income from capital gains being received by the wealthiest one per cent of the population. The decision to halve the profits paid on capital gains, a policy that has the support of the current Rudd Government, costs an estimated \$7.83 billion per annum. Of this, \$3 billion goes directly to the wealthiest one per cent.

As luck would have it, the Secretary of the Commonwealth Treasury, Dr Ken Henry, is currently undertaking a review into the Australian tax system. It is unclear, however, whether the disparities listed above are seen by government as a problem that needs to be fixed or as

mechanisms that create an 'incentive' for the rest of us to join the top one per cent.

Dr Henry has made it clear that reducing the complexity of the tax system is a high priority. While most people interpret this as a rationale for abolishing taxes, a more equitable and efficient way forward would be to remove the wide range of tax exemptions, including the capital gains tax concessions discussed above. The abolition of tax concessions would, by definition, simplify the taxation system while simultaneously generating billions of dollars in additional revenue and increasing equity—all without having to introduce any new taxes!

The next step should be to make the income tax system more progressive by introducing a new top tax rate for those earning more than \$1 million per year. The Institute recently made the case for such a threshold in a paper entitled *The case for a new top tax rate*.

The paper found that the introduction of a 50 per cent tax rate on incomes over \$1 million would raise more than \$435 million in 2008–09. The rapid rate of growth in CEO salaries would also ensure that a new top tax rate would provide a rapidly growing source of revenue into the future.

It is inevitable that the Rudd Government will announce changes to the Australian taxation system



after the Henry Tax Review makes its recommendations and in the lead up to the 2010 federal election. What is not inevitable, however, is that any proposed changes will help address the growing gap between the very wealthy and the most disadvantaged. Nor is it inevitable that the tax concessions and exemptions granted to the most wealthy will be removed in order to fund higher quality services for those most in need.

However, although genuine reform is not inevitable, it is possible. To that end the Institute has made a number of submissions to the Henry Tax Review and has assisted several community organisations, including Uniting Care, to prepare their own submissions. We will continue to conduct and disseminate our research in order to inform debate around this most important area of government policy. ■

Telemarketers from Page 2

average telemarketing call lasts for 1.45 minutes. Based on these figures, we estimate that the value of time wasted on unsolicited telemarketing calls across Australia is \$1.58 billion per year. Two in three survey respondents said that telemarketing should be prohibited in Australia.

People whose number is on the DNC Register said they received fewer calls on average than those not on the Register (seven calls per month compared to ten calls). In other words, the Register appears to have reduced

telemarketing call volumes by around 30 per cent.

This would be an indication of success if it were a 'Call Me Less' Register, but as a 'Do Not Call' Register it signals the partial failure of current measures to mitigate the impact of intrusive marketing, which operates almost exclusively on an 'opt-out' approach.

Currently, members of the public have to take deliberate action if they wish to avoid direct marketing, but our research indicates that an 'opt-in' system would be more effective in

The value of time wasted on tele-marketing calls across Australia is \$1.58 billion per year.

reducing the social costs of direct marketing. Such a system would assume that most people do not wish to receive direct marketing, and would prohibit unsolicited telemarketing calls to anyone who has not indicated their desire to receive such calls. ■

Channel Nine's artificial campaign

Channel Nine's recent stunt to bring down petrol prices is a benign example of the insidious phenomenon of 'astroturfing'. Josh Fear explains.

Channel Nine viewers may have noticed *A Current Affair's* recent 'Fuel Fightback' campaign, which involved several independent petrol stations in Sydney, Melbourne and Brisbane slashing their prices below \$1 per litre for a number of hours each day.

Channel Nine cameras dutifully arrived on the scene to document the traffic snarls caused by the lengthy queues of motorists waiting to fill up.

A Current Affair represented the campaign as a grassroots movement against the big oil companies, which, they argued, kept petrol prices high even as the global oil price was in decline. According to presenter Tracey Grimshaw, the campaign 'sends a blunt but very clear message to the oil giants to stop milking drivers and finally give them a fair go'.

The motives for astroturf campaigns are not always benign.

Punters at the bowser seemed to agree. 'Join in. Do something for Australia', said one. 'Keep the bastards honest and let's get the prices down', said another.

A Current Affair's 'grassroots' campaign is, in fact, reminiscent of another kind of movement. 'Astroturfing' refers to apparently grassroots community campaigns or groups that are primarily conceived, created or funded by corporations, industry associations, political interests or public relations firms.

In this case it was Channel Nine that funded the campaign. Reporter Howard Gipps acknowledged on air that '*A Current Affair* picked up the tab for today's fightback'.

This case of astroturfing was more overt and less harmful than most. Picking on big oil touches a nerve with many people, and it is safe to assume that the primary motivation for 'Fuel Fightback' was to attract a larger share of the TV audience.

having no political affiliation' which takes 'an evidence-based, solution focused approach to environmental issues'. It represents itself as a movement of 'practical environmentalists—people who actively use and also care for the environment'.

A particularly effective tactic in the corporate public relations war is astroturfing (Ross Irvine).

The motives for astroturf campaigns are not always so benign. For example, during the 2006 Tasmanian state election, it was reported that business interests had created a front group called Tasmanians For a Better Future, which undertook a major advertising campaign aimed at undermining support for the Greens. The campaign was organised by public relations firm Corporate Communications Tasmania, which revealed only that funding came from 'a group of concerned Tasmanian business and community people'.

It was later reported that Michael Kent, a prominent Tasmanian businessman (and Chairman of the Tasmanian Chamber of Commerce and Industry), provided some of the funding for Tasmanians for a Better Future. Timber company Gunns Limited refused to comment on its involvement in the campaign.

More dangerous again has been the work of the Australian Environment Foundation. The AEF describes itself as a 'not-for-profit, membership-based environmental organisation

In reality, the AEF is a collection of climate change denialists and sceptics. Its founders include Jennifer Marohasy from the Institute of Public Affairs (a right-wing think tank which, according to SourceWatch, has accepted money from BHP Billiton, Western Mining, Telstra, Philip Morris, British American Tobacco, Monsanto and Gunns Limited), Tom Bostok from the Lavoisier Group (an organisation known for lobbying government to ignore the scientific evidence on climate change), and Mike Nahan, also from the IPA. Nahan has called AEF's stance 'pro-biotechnology, pro-nuclear power, pro-modern farming, pro-economic growth, pro-business and pro-environment'. When the AEF's website was registered it shared an address and phone number with Timber Communities Australia, a pro-logging industry group with strong links to Gunns Limited. The inaugural chair of the AEF, former television presenter Don Burke, recently left to work as an 'environmental adviser' for Gunns.

In the September 2005 issue of this newsletter, Katherine Wilson wrote

Continued on Page 16

All participants in our democracy must question the real motivation behind any person or group that purports to speak on behalf of the community.

Institute notes

New Publications

S Harris Rimmer, *The Dangers of Character Tests*, Discussion Paper 101, October 2008.

H Saddler and H King, *Agriculture and Emissions Trading: The impossible dream?* Discussion Paper 102, October 2008.

J Fear, *Choosing Not to Choose: Making superannuation work by default*, Discussion Paper 103, November 2008.

J Fear, *Go Away, Please: The social and economic impact of intrusive marketing*, Discussion Paper 104, December 2008.

R Denniss and J Fear, *The role of a higher age pension in stimulating the economy*, Research Paper 56, October 2008.

D Richardson, *The tax treatment of capital investments in renewable energy*, Research Paper 57, October 2008.

R Denniss, *The case for a new top tax rate*, Research Paper 58, October 2008.

E Denniss, *Fixing the Floor in the ETS*, Research Paper 59, November 2008.

Forthcoming Publications

* Superannuation tax concessions

* How emissions trading works

* Equine influenza

* Buying and selling blood and organs

The Australia Institute welcomes David Ingles as a part-time researcher. David is an economist whose career has been spent in the public service working within various departments. He will research and write on economic subjects of interest to the Institute, particularly tax and superannuation.

In October 2008, the Institute also welcomed Leigh Thomas back as Business Manager. Leigh was the Office Manager for the Institute from 2002 until early 2006. She says she is delighted to be back and we are all very happy to be working with her again.

Channel Nine's artificial campaign from Page 15

of her experiences at a Melbourne workshop given by Canadian public relations consultant Ross Irvine and sponsored by the IPA.

Irvine, well known for his hostility to community groups and NGOs, briefed attendees on the best ways to derail community campaigns that threaten commercial interests. Most of those at the workshop were corporate representatives, although advisers to then Treasurer Peter Costello and then Minister of State Eric Abetz were also in attendance.

According to Irvine, one particularly effective tactic in the corporate public relations war is astroturfing. The IPA appears to have taken his advice to heart.

For the record, the Public Relations Institute of Australia 'strongly

opposes astro-turfing practices' and insists that its members 'adhere to the highest standards of ethical practice'.

Fortunately, astroturfing is a new and relatively rare phenomenon in Australia. In the US, by contrast, the public relations war over the response to climate change has for years been distorted by the involvement of front groups with links to big oil and other commercial interests.

The creation of fake community groups means that all participants in our democracy, including citizens, governments, non-government organisations and the media, must question the real motivation behind any person or group that purports to speak on behalf of the community.

Ironically, it is exactly such mistrust of community groups that organisations such as the IPA have encouraged. The Australia Institute has a long-held interest in how vested interests attempt to silence dissent, and the practice of astroturfing is an emerging battleground in this area. ■

