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The Australia Institute— where to from here?

It is a year since Richard Denniss took over as Executive Director of The Australia Institute. In this article, he examines the successes achieved in a stimulating first year and gives some thought to his plans for the future.

It has been just over 12 months since I took on the role of Executive Director and so far it has been a challenging and exciting time. In my first newsletter piece I wrote, 'The questions of when and how to regulate are less ambitious than whether markets are good or bad but they are far more relevant. Good research and good ideas can help improve the way government services are provided and, in turn, improve social, environmental and economic conditions'.

In the last 12 months I think our ideas, backed up by our research, have helped to lead a number of significant policy debates across a wide range of issues. In this article, I want to place our recent research into the national context and then sketch a picture of where I think we need to go from here.

The Institute was the first organisation to link the equity benefits of increasing the age pension with the macroeconomic benefits of using the pension to stimulate the economy. We highlighted the advantages of injecting funds into the economy via demographic groups that were highly likely to spend the money, spend it in Australia and spend it in regions of relative disadvantage. In this way, we helped to reframe the question of a rise in the pension rate away from the perception that it was a 'luxury' that could not be afforded in recessionary times to a



vehicle for stimulating the economy more efficiently than tax cuts can.

In subsequent research papers, Senior Research Fellows Dr David Ingles and David Richardson used the same arguments to support respectively an increase in unemployment benefits and the introduction of paid parental leave.

In our submission to the Senate inquiry into the \$42 billion stimulus package, David Ingles highlighted the inequity associated with the requirement for unemployed people to spend most of the money they had in the bank before becoming eligible for government assistance. This 'liquid assets test' has since been significantly improved.

On the revenue side of the ledger,

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the Institute led the call to increase the top tax rate from 45 per cent to 50 per cent for those earning more than \$1 million a year. This proposal attracted front-page newspaper coverage around the country, with Melbourne's *Herald Sun* declaring it a 'Fat Cat Tax'. While the proposal was quickly rejected by Lindsay Tanner, it attracted wide-spread support. The Institute is currently undertaking further research into the benefits associated with higher taxes for very high-income earners and will link this to the debate around the need to control executive salaries.

Still on the revenue side, David Ingles has demonstrated the inefficiency and inequities associated with the enormous tax concessions granted to superannuation and capital gains. Together these tax concessions cost the budget more than \$30 billion a year and, if reformed, could provide the funds to invest in a much wider range of services and remove some of the poverty traps experienced by very low-income earners. Our research on tax has been submitted to the Henry Tax Review and Institute staff have provided briefings to the review as well as to a wide range of community organisations. Indeed, we helped a number of community organisations prepare their submissions to the Budget and the Henry Tax Review.

We have also worked hard to incorporate a bit more 'real life' into the design of policies that affect individuals. While the economics textbooks talk about 'rational agents', who can automatically determine which is just the right phone plan or superannuation account for themselves, we have been drawing on

the lessons from the emerging field of 'behavioural economics' to develop new proposals designed to help consumers deal with their superannuation, their banks and even telemarketers.

Research Fellow Josh Fear's research into the cost of confusion around superannuation was launched by the then Minister for Superannuation, Nick Sherry. This work has significantly influenced the emerging debate around the need to provide 'default funds' that give protection for those consumers who cannot, or do not want to, choose a fund themselves.

On the issue of tackling climate change, the Institute has been at the centre of the debate on a number of occasions. First, we highlighted the fact that the proposed compensation arrangements completely neglect the community sector and local and state governments. When the CPRS is introduced, it will increase the price of electricity but while households and businesses will receive billions of dollars to help offset these costs, the original proposal provided absolutely no assistance whatsoever to the community or state government sectors.

As a result of our research, the government set up a new fund that will now provide hundreds of millions of dollars-worth of assistance to the NGO sector. But, although the state governments paid Access Economics to check our numbers (it turns out we underestimated the impact on the state budgets), the premiers are yet to extract any money from the Commonwealth. Watch this space!

The Institute has also succeeded in

explaining to the public and (most) interested parties that when the national targets are set under the proposed CPRS, it will be impossible to reduce emissions further through voluntary action unless the CPRS legislation is amended. Voluntary action by state governments (for example, schools setting state-based renewable energy targets or investing in public transport) or individuals (for example, by using less energy in the home) will not make a difference. This is because, under the proposed scheme, any reduction in emissions in one sector simply frees up additional permits for use in other sectors.

While it may seem surprising, this 'design feature' of the CPRS was so poorly understood that entire strategies have had to be redesigned as state and territory governments have come to terms with just how flawed the proposed CPRS is. In March this year for example, a leaked Victorian Cabinet document showed that the state environment department was developing an expensive range of emissions reduction policies which, according to the Victorian Government's own documents, would not result in any additional reduction in overall emissions.

The ACT Government remains committed to the admirable goal of introducing a zero emissions target for the ACT even though, under the proposed CPRS, achieving such a goal would simply free up additional permits for polluters in other states. The Institute made a submission to, and appeared before, the ACT inquiry into its proposed target and while the inquiry is yet to report, we expect that it

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Unequal laws

The common law assumes that private individuals take court action solely to protect their private interests and that the only party using the courts to uphold the public interest is the Attorney-General. Both these assumptions are now outdated and wrong. Brian Walters SC explains why.

Last month, Forestry Tasmania threatened Bob Brown with bankruptcy if he did not pay \$250,000 for its legal costs. Senator Brown had challenged the conduct of Forestry Tasmania in the Federal Court and the costs were for a five-day appeal, which overturned the first judge's decision in his favour. Clearly, Bob Brown did not bring this litigation from hope of personal financial gain but in an attempt to make the world a better place, particularly by protecting threatened species in the Wielangta Forest. Should the law have required him to pay costs when he failed?

The common law assumes that private individuals only take court action to protect their private interests. The common law also assumes that the only party who approaches the courts to uphold the public interest is the Attorney-General. Both these assumptions are now outdated and wrong.

In 1972, when the Attorney-General of Tasmania, Mervyn Everett, gave his 'fiat' (that is, authority to bring a case in the public interest) to conservationists to challenge the lawfulness of the flooding of Lake Pedder, he refused to accept a cabinet directive to stop the litigation. The Premier Eric Reece, a non-lawyer, sacked him, assumed the office of Attorney-General himself and withdrew the fiat. The courts were not permitted to decide.

This highlights one of the problems with the role of the Attorney-General. The position is held by a politician and yet the Attorney is expected to oversee the way the courts hold politicians to account.

In 2006, the Blue Wedges Coalition approached the Supreme Court of

Victoria to challenge the legality of the Victorian Government's 'trial' dredging of Port Phillip Bay. Blue Wedges alleged that the dredging would be in breach of the government's own laws, particularly because it was being conducted without any Environment Effects Statement.

The Minister had called for an EES and was awaiting its provision. Section 6(2) of the *Environment Effects Act 1978* requires that 'no works' be carried out until the EES has been considered by the Minister. These trial works involved four to five per cent of the overall works and moving 1.7 million cubic metres (a 'large' dredging project is regarded as 500,000 cubic metres), enough earth to make a pile stretching from Melbourne to Sydney. The claim by Blue Wedges had, at the very least, real prospects of success.

There is a problem with the role of the Attorney-General: the position is held by a politician and yet the Attorney is expected to oversee the way the courts hold politicians to account.

A challenge like this takes months to be given a full hearing by the Supreme Court. By then the trial dredging would be finished and there would be no point in the Court ruling on the controversy.

For this reason, the Blue Wedges Coalition asked the court for an interlocutory injunction to prevent works until the issue could be fully argued.

In such cases it is usual for the party seeking an injunction to give the court an undertaking to pay



any damages caused by the delay in works if the court ultimately rules against the legal challenge. If you want a court to stop something so that you can bring a case, you must be prepared to cover the loss caused if you fail.

In this case, the prospective damages from a delay in the dredging was said to be some \$32 million, accumulating at over \$300,000 a day. There was no prospect of a community group honestly giving an undertaking to pay such a vast sum and they sought to be excused from the requirement.

Justice Mandie, relying on the conventional legal approach to these matters, would not excuse Blue Wedges from this requirement and, accordingly, would not grant the injunction.

Whatever you think of the merits of dredging Port Phillip Bay, the Blue Wedges case highlights an important gap in our rule of law. If the government were acting unlawfully in this trial dredging, surely the rule of law requires that it be held to account. But how?

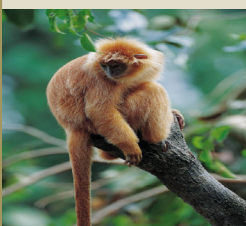
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Buying permission to pollute—who really pays?

Much has been made of the 'costs' that Australia will face in attempting to reduce greenhouse gas emissions as a result of the introduction of the Rudd Government's Carbon Pollution Reduction Scheme (CPRS). However, what is not widely understood is that under the CPRS, a substantial portion of these emission reductions can be achieved through importing emissions 'credits' from developing countries. Treasury modelling shows that, in order to meet the current proposed emissions reduction targets, Australian firms will import billions of dollars-worth of credits from less-developed countries.

As a way of facilitating wider discussion on the ethical and economic implications of rich countries relying on the importation of credits from developing countries, the Australia South Asia Research Centre, Australian National University (ANU) and The Australia Institute (TAI) co-hosted a workshop in Canberra on 16 June.

The speakers were Dr Richard Denniss (TAI), Professor Raghendra Jha (Australia South Asia Research Centre, ANU) and Andrew Macintosh (Centre for Climate Law and Policy, ANU).

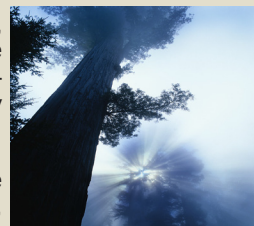


Richard made the point that for any carbon reduction scheme to be successful, not only had it to be environmentally credible it also had to have a positive influence on the achievement of the UN Millennium Development Goals. The objectives are inextricably linked.

He explained that, under the proposed scheme, countries like Australia can avoid the inconvenience of reducing emissions by relying instead on credits imported from developing countries. But poorly regulated trade in pollution credits has the potential to reduce employment in developing countries and will prevent the creation of domestic jobs in energy efficiency in wealthy countries. Similarly, it has the capacity to stifle the broad economic development of developing

countries and will hinder a transfer of technology from wealthy countries. Richard also questioned the efficacy of paying countries to conserve forests when thriving illegal logging markets exist and doubtful governance standards characterise administrative bodies.

Just as free trade can deliver benefits to developing countries but won't necessarily do so, emissions trading can help achieve the Millennium Development Goals but such an outcome is not inevitable; all the speakers expressed some concern about this situation. What is needed is a much wider debate about the regulatory and other mechanisms needed to accompany any emissions trading scheme.



Professor Jha pointed out that proposals for an international carbon trading scheme have paid insufficient attention to its macroeconomic and developmental implications. If, as is likely, businesses in developed countries buy trading permits from businesses or governments in developing countries, the latter are likely to see a significant inflow of foreign currency, which could lead to an increase in the exchange rates of the developing countries and a subsequent reduction in the competitiveness of exports from other sectors in their economies. At the same time, businesses in the developing countries will have to cut back on their own emissions to comply with their decreased carbon entitlements, which will slow the pace of industrialisation and, hence, poverty reduction in the transition countries.

Andrew Macintosh stressed that current Australian Government proposals for reducing carbon emissions not only lack environmental credibility but also involve an inequitable division of the global emissions entitlements between developed and developing countries. If developing countries are asked to shoulder an inequitable share of the abatement burden, an environmentally credible agreement is unlikely to be reached.

An unfair agreement, if it could be finalised, is also likely to be unstable. Ensuring an equitable distribution of emissions entitlements is in the long-term interests of developed countries. There is also the moral argument that it is the right thing to do.



Andrew argued that there are essentially three ways of distributing emission entitlements between countries: historical responsibility, equal per capita and grandfathering. While perspectives on equity differ, the egalitarian equal-per-capita approach is ethically appealing and strikes a balance between the negotiating positions of developed and developing countries. This approach is based on the simple notion that everybody should have an equal entitlement to the rights stemming from the earth's climate system. If the per capita approach is used as a benchmark for fairness, the proposals put forward by the Australian Government and other developed countries look decidedly inequitable as they are based explicitly on the notion that Australia's per capita emissions are entitled to be higher than those in developing countries.

The event was well attended, with many nominating to be kept informed of future research by the Institute and demonstrating an interest in a new paper that will examine Australia's relationship with a climate-changed Pacific. The paper will be launched in the lead-up to the Pacific Islands Forum in August. §

In that case, the Planning Minister, who openly supported the trial dredging, was also the Attorney-General. There was no way he was going to give his fiat for the conduct of the case.

Access to justice is critical for the rule of law. There is no point having the law if members of the community are not able to approach the courts to obtain remedies to enforce it. It is an affront to the rule of law to leave anyone, especially the government, free to break the law because no one can afford to challenge them.

We need legislation to facilitate public interest litigation.

Such legislation would enable litigants seeking a remedy for motives other than profit to approach the courts for a preliminary determination as to whether the litigation was in the public interest or not. If the courts held that it was in the public interest for the case to be determined, certain consequences would flow:

- In the ordinary course, the party bringing the proceeding in the public interest would not be liable for costs, no matter what the outcome.
- In the ordinary course, the party bringing the proceeding would be excused from the obligation to give an undertaking

as to damages when seeking an injunction.

If that system applied, Bob Brown would have been able to test the legality of Forestry Tasmania's actions without running the risk of bankruptcy if he were to lose, a risk that a public authority never runs from litigation.

The rule of law requires that the decisions of those who exercise power should be reviewable in the courts. Instigating such reviews is now the privilege of the very wealthy. Community groups and those concerned for the public interest have almost no chance of a serious hearing. That system makes us all losers. §

The benefits of the mining boom

The mining boom began around the end of 2004 and the common perception of Australians is that it delivered vast benefits to the government, the economy and households, although possibly not to all households. In his paper entitled *The benefits of the mining boom*, David Richardson explores what really became of the fabled wealth generated by the mining boom.

The perception of most Australians is that the mining boom delivered unambiguous benefits for the Australian economy, including more jobs, exports, tax revenues and, for the majority of people, higher incomes. In his recent paper, David Richardson looks more closely at the extent to which Australians did, in fact, benefit from the boom, which it dates as beginning after the December quarter 2004 when commodity prices clearly began to show the impact of the increased demand from the rest of the world. Developments after 2004 are taken to reflect the effects of the mining boom.

Mining companies certainly did well. As a result of the boom, revenue received by these companies increased by over \$60 billion. Well over half, \$37 billion, represented increases in company profits before interest and tax expenses. A further \$20 billion represented increased input costs, including transport, business services, chemicals, fuels, construction and



construction materials. Additional labour costs accounted for \$5 billion and additional royalties to state governments, \$3 billion. A large proportion of the increased revenue was spent by mining companies on investment in new capacity, which went up by \$30 billion. Profits in Australia grew as a result of the increased revenue flowing to the mining companies but some of this

growth occurred at the expense of non-mining profits.

It is, however, unclear whether any other aspect of the economy benefited to any large extent.

The major stimulatory effect the mining boom might have had on the Australian economy was circumvented because of two factors

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Working women

Current government policy in Australia does not encourage workforce participation by women. Yet women are a large untapped source of productivity enhancement, referred to in the 2008–09 Budget as essential for the health of the economy. Marie Coleman, chair of the National Foundation for Australian Women Social Policy Committee, examines the situation.

Sometimes there occurs a confluence of issues, which should ensure that new policies will emerge. Another way of putting this is the observation, frequently quoted with different attributions, to the effect that governments should never let a good crisis go to waste.

Just such a confluence of issues comes together around women's workforce participation.

In the 2008–09 Budget Paper 2, Treasury waxed eloquent about issues to do with the essential need to enhance productivity, noting that increased workforce participation was an essential element of improved productivity and that women were the great under-utilised segment of the Australian population. Much was made of the need, on productivity grounds, for investment in early childhood, including in both child care and pre-school education.

The need to ensure policy settings that would provide for the costs of an ageing population (health and income support costs, diminished workforce participation, potentially lower taxation revenue from personal income tax) was also at the forefront of policy concerns.



The government subsequently established the review of Australia's Future Tax System (the Henry Tax Review) and asked both the Secretary of the Treasury and the Secretary of FaHCSIA to bring forward early reports on retirement incomes and pensions. Treasury's discussion paper on superannuation noted the high propensity of women to retire with inadequate provision for their continued incomes as they grow older.

Increased workforce participation is an essential element of improved productivity and women are the great under-utilised segment of the Australian population. (Budget Paper 2)

When the National Foundation for Australian Women (www.nfaw.org), with the assistance of Professor Patricia Apps of the University of Sydney, looked closely at the gender equity issues underpinning the need for tax reform, two things stood out:

1. Current policy settings relating to the interaction of the tax and transfer systems provide a powerful economic disincentive for second income earners in low and middle income families to re-enter or remain in the work-force.
2. The lack of attention to child care for school-aged children—before and after school and during school vacations—strongly reinforces the tax/transfer disincentives. (See for example <http://www.nfaw.org/out-of-school-hours-care/>). Women with school-

age children most commonly work part-time, if at all, take lower-paid, lesser-skilled jobs in order to achieve flexibility and work-life balance and, in consequence, fail to make adequate retirement income savings. Paid parental leave was another gap in Australia.

So, we come back to the lack of adequate child care for school-age children and the perverse effects of the tax/transfer interaction working together to undermine Treasury's argument that greater female workforce attachment is an essential element of increased productivity.

The Budget announcement of a national paid parental leave scheme is an important part of the policy mix and will support workforce attachment.

It is curious, however, that some of the submissions to the Henry Tax Review have been suggesting that the way to enhance productivity is through increased taxation of middle incomes because higher effective tax rates for high flyers will result in the flight of such individuals to happier tax climes. Domestic labour is not considered prone to such flights.

Have we got news for them? Domestic labour is a flight risk. It is women, the principal second income earners, who constitute the great flight component from the workforce—not a handful of executives earning millions of dollars.

Is this bad for the future productivity of the Australian economy, let alone conducive to greater dependence on state benefits at retirement? Yes, it is.

Is this bad for women? It sure is.



Women's organisations concerned about women's economic security are now campaigning for the Prime Minister to refer future funding arrangements for child care, especially out-of-school hours and vacation care, to the Productivity Commission.

Women's organisations have made submissions to the Henry Tax Review and will be pursuing these issues, most vigorously, over the next little while.

It's amazing how many things come back to these issues:

- future productivity of the economy
- enhancing women's workforce participation
- achieving work-life balance
- provision of affordable, accessible quality child care for school-age children as well as the under-fives

- reducing female poverty in retirement and hence dependence on the state.

Recession or no, government policy for the medium and long term must address the disincentives to female workforce participation and do so with a coherent and integrated policy package. §

For information on both the child-care funding Initiative to the Productivity Commission and the submission to the Henry Tax Review, see <http://nfaw.org>.

Long overdue

A paper written by David Richardson and Tully Fletcher in April examined the macroeconomic benefits of a paid parental leave scheme just a month before the Labor Government announced in its 2009–10 Budget its intention to introduce just such a scheme from January 2011.

Despite decades of campaigning, Australia has been one of only two OECD countries that do not provide comprehensive paid parental leave (PPL). As Deputy Prime Minister Julia Gillard said in October last year, 'This is an issue that's been neglected for a long period of time'. In responding to the release of the recent Productivity Commission (PC) draft report into paid parental leave, Prime Minister Kevin Rudd stated, 'This Australian Government believes the time has come to bite the bullet on this and we intend to do so'.

This paper examines the macro-

Despite decades of campaigning, Australia has been one of only two OECD countries that do not provide comprehensive paid parental leave.

economic benefits that a PPL regime would bring to the Australian economy.

Spending money on PPL is a highly efficient way to stimulate the economy due to the higher-than-average propensity of young families to spend any money they receive, to spend it on locally-produced goods, and to spend it across Australia rather than in specific regions as is the case with big infrastructure projects. The PC estimated the net cost of its proposed scheme at \$450 million. Multiplier effects would generate additional GDP of \$0.9 billion, creating 8,900 new jobs and reducing the net cost of the scheme to \$225 million.

Just as importantly, women who have access to PPL spend longer in the paid workforce than women who do not. Consequently PPL will pay for itself over the course of a woman's working life because the

extra tax revenue associated with the increased workforce participation of these women is estimated to be significantly greater than the cost of their parental leave payments. The long-run supply side effects of the increased participation by women in the workforce should increase GDP by around \$2.5 billion and generate additional tax revenue of \$625 million. This

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Money talks

The Public Interest Advocacy Centre (PIAC) is an independent, non-profit law and policy organisation that identifies public interest issues and works co-operatively with other organisations to advocate for affected individuals and groups. An excerpt from its submission to the Electoral Reform Green Paper follows.

In 2008, the Australian Government initiated a review of the federal electoral system and released the *Electoral Reform Green Paper—Donations, Funding and Expenditure* in December 2008.

The Public Interest Advocacy Centre (PIAC) is of the view that reform of both public and private political financing and electoral processes is necessary. The high cost of political activity, reliance on large corporate donations by political parties, purchase of access to political representatives, weak disclosure provisions and inadequate independent scrutiny of political financial arrangements all make for an unequal and unaccountable political environment, which threatens the fundamental representative role of parties. In addition, a lack of transparency and the perception of situations of conflict of interest can corrupt practice and create distrust in the community.

Many of the existing financing protocols make for an unequal and unaccountable political environment, which threatens the fundamental representative role of political parties.

While the relationship between big business and politicians grabs many headlines, so increasingly do allegations of inappropriate use of public funds for partisan purposes by incumbents and governments. It is important to review all aspects of political financing because different players are privileged through different funding sources and disclosure requirements. For example, if recommendations that

limited private funding were agreed to and implemented but inappropriate use of electoral allowances and government expenditure were not better regulated, incumbent members would be inappropriately privileged.

Third parties, such as environment, religious, industry or other groups, although ostensibly non-partisan can also be a significant source of private funds to political participants. While the role of genuine issue-advocacy needs to be protected, it is important to ensure that electoral law and election spending limits are not undermined by the activities of third parties.

A healthy democracy requires that diverse views are represented in parliaments, debates and campaigns. It is through the presence of different voices that new agendas can be created, that vested interests can be challenged and that governments can be held to account. Creating a level playing field necessarily imposes some constraints on political participants.

Some argue that constraints, such as limits on donations and expenditure, impinge on civil liberties. PIAC is of the view that to create a healthy representative democ-

racy, the equality of citizens must be seen as the essential underpinning principle. This is supported by the principles of 'one person one vote' and relatively equal electoral districts. For a full discussion, see D R Davidson and M Lapp, *Political Financing in Canada: Achieving a Balance*, a paper presented at the Annual Meeting of the Law and Society Association, Humboldt University, Berlin, Germany, 25–28 July 2007.

The implied right of freedom of political and governmental expression can still be properly protected in a system that limits the impact of donations and expenditure on the integrity of the political and electoral process.

Important in this discussion is the precedent set by the Supreme Court of Canada in *Harper v Canada* (Attorney General) concerning election advertising spending limits by electoral participants other than candidates and parties. The court determined that electoral fairness was an essential component of Canada's democratic society.

It is also argued by some that strong disclosure requirements impinge on privacy. However, PIAC is of the view that transparency is an



A healthy democracy requires that diverse views are represented in parliaments, debates and campaigns.

essential tool in curbing corruption. Without transparency and access to information, accountability becomes an impossible goal.

While there are certainly challenges in implementing reforms such as expenditure limits, the purpose of creating a fairer political environment is sufficiently important to warrant taking on that challenge. While there may be enforcement gaps in political finance regulation, countries such as Canada and the United Kingdom have shown that Australia could do much better.

To create a healthy representative democracy, the equality of citizens must be seen as the essential underpinning principle.

PIAC recommends that:

- only individual citizens should be able to make financial contributions that support political parties and candidates, and such donations should be capped

- expenditure of political participants should be capped
- public funding should contribute to the ongoing operational costs of political parties and independent members of parliament
- limits to financial contributions and expenditure should apply across the electoral term and on an annual basis
- the financial and other privileges of incumbents and governments must be better regulated to minimise politically partisan use
- citizens have a right to full information regarding the financial activities of governments, political parties, candidates and any other entities that have significant political influence
- public funding should be provided to parties and candidates at local, state and federal levels in order to give greater financial equivalency, and this funding should be tied to compliance with electoral law
- any changes to electoral law should have evaluative mechanisms structured into their design
- Australian legislation and electoral support practices should give effect to Article 25 of the International Covenant on Civil and Political Rights, which provides for universal suffrage and secret ballots 'without unreasonable restrictions'
- public funding should be provided to parties and candidates who receive four per cent of the first preference vote
- in order to achieve greater financial equivalency, public funding should be subject to a sliding scale after a threshold of votes has been reached
- all measures must be taken to ensure the independence and appropriate resourcing of the Australian Electoral Commission or any other future agency charged with ensuring free and fair elections. §

Full submission available at www.piac.asn.au

Long overdue from Page 7

is significantly more than the \$450 million net cost estimate of the PC's scheme.

The paper, *Long overdue*, was written in April before the 2009–10 Budget was brought down. The Australia Institute was gratified to note that the Budget contained outlines for a PPL scheme to be introduced on 1 January 2011, the earliest possible start date due to the significant system changes required and the need to consult with employers.

PPL payments will be taxable and will be paid to eligible persons for a maximum period of 18 weeks at the level of the Federal Minimum Wage, currently \$543.78 a week. Employers will be responsible for the payments in the majority of cases.

Eligible primary carers (usually the mother) are defined as people who have:

- been engaged in work continuously for at least 10 of the 13 months prior to the expected birth or adoption of the child
- undertaken at least 330 hours of paid work in the 10-month period (an average of around one day of paid work a week).
- earned an adjusted taxable income in the previous financial year of less than \$150,000.

Casual workers, contractors and the self-employed will be covered as well as employees. If they return to work before the 18 weeks are up, primary carers may be able to transfer the unused part of their PPL to another caregiver (usually the father), providing that caregiver

fits the eligibility requirements.

Those eligible families who elect to receive PPL will no longer receive the Baby Bonus (except in cases of multiple births) or Family Tax Benefit Part B during the 18-month period but, depending on their circumstances, they are able to make a choice as to whether they will participate in the scheme. New mothers who are not eligible for PPL will continue to receive, if eligible, the current forms of family assistance (including the Baby Bonus).

The PPL scheme is estimated to have a net cost to the government of \$731 million over five years. §





Mining boom from Page 5

each working in an opposite direction. First, the appreciation of the exchange rate that accompanied the boom had the effect of making other sectors of the economy less competitive, especially the trade-exposed sectors. This phenomenon is known as the Gregory effect in Australia and it caused a contraction in the rest of the economy. Secondly, the Reserve Bank of Australia increased interest rates in an attempt to offset the stimulatory effects of the boom. Between May 2006 and March 2008, the RBA steadily increased official interest rates from 5.5 per cent to 7.25 per cent in seven steps of .25 per cent each.

Macroeconomic forces worked to offset the beneficial impact on the rest of Australia because of the Gregory effect on the one hand and the contractionary policies of the RBA on the other.

Households

Estimates from the Australian Bureau of Statistics suggest that the terms-of-trade impact of the boom increased real income by over nine per cent but the question is to what extent were the two main sources of income in Australian households, wages and government income-support payments, boosted during the period? The evidence shows that real wages increased at roughly the same rate after the onset of the mining boom as they did before it. Of course, there were strong local effects in WA and Queensland but, for Australia as

a whole, there was no acceleration in wages growth as a result of the boom. There was certainly no indication of an additional nine per cent increase in real wages coming through.

Households on government payments indexed to inflation received no real increase during this time and neither did pensioners receiving pensions indexed to wages, since wages themselves did not reflect any benefit from the mining boom. Indeed over this period, the high interest rates caused by the mining boom would have meant that many home buyers and other borrowers became net losers.

Anyone owning resource stocks would have benefited from the enormous paper gains, which peaked in May 2008 but had largely disappeared by the end of 2008. However, to the extent that the gains persisted, the benefits would have gone to the wealthiest 20 per cent of households where share ownership is concentrated. Some companies made investment decisions at the peak of the mining boom that became less viable when the good times evaporated and this would have tended to reduce the present market value of the relevant company shares.

Governments

Until lately, the government was flush with revenue, a situation ascribed by many commentators to the impact of the resources boom. This substantial increase in revenue was associated with virtually continuous 'surprises' to the government as economic growth and government revenue came in well over budget forecasts in each of the recent years.

But the increased government revenue far exceeded the supplementary revenue from the mining industry. At most, the additional taxes raised from the mining industry were about \$17 billion per annum while the government received 'revenue surprises' of \$83 billion. Hence, although it might be perceived that households benefited from the boom because of the tax cuts and additional advantages that governments, awash with money, were able to deliver, it appears that most of the tax and spending initiatives over this period were not dependent on mining revenues. As it happened, the additional mining revenue was roughly equivalent to the amount that governments 'saved' through budgeting for higher surpluses. Of course, the Gregory effect and the repercussions from the RBA's contractionary policies resulted in a reduction of taxable income elsewhere in the economy, thus reducing the net revenue impact of the mining boom.

Conclusions

Overall, the mining boom seems to have had very little positive impact on the wellbeing of the majority of Australians other than those directly affected by the mining industry itself. There are, in fact, no institutional arrangements for distributing such benefits to Australians, either through indexation arrangements to those on government income support or through the industrial relations system to those relying on wages. In addition, macroeconomic forces worked to offset the benefits to the rest of Australia because of the Gregory effect on the one hand and the contractionary policies of the RBA on the other. §

The rise and rise of inequality

The Australian Fair Pay Commission brought down its wage decision on 7 July 2009. David Richardson laments the opportunities lost as a result of its decision to maintain the minimum wage at its current level.

On 7 July 2009, the Australian Fair Pay Commission, the body responsible for setting the minimum wage, refused to grant a wage increase. For all those who rely on the Commission for their wage increases, including unskilled workers, young people, recent migrants, part-timers and, disproportionately, women, minimum wages will now remain at \$14.31 per hour or \$543.78 a week. The justification appears to be that a freeze will protect jobs.

Since the Commission made its last decision, the consumer price index has increased by 2.5 per cent so that keeping the minimum wage at its current level means, in fact, that real wages have fallen by 2.5 per cent. As a consequence, the lowest income earners in the country will now be able to buy 2.5 per cent fewer goods and services than they could this time last year.

The justification for maintaining the minimum wage at its current level appears to be that a freeze will protect jobs

Furthermore, inflation is forecast to be 1.75 per cent over the course of 2009–10 so by the time the next decision comes down, most likely in July 2010, real wages will have fallen by over four per cent for Australia's lowest paid. This is a situation the Commission has not even bothered to justify.

On average, wages are rising by four per cent per annum so anyone with a wage freeze goes backwards at four per cent per annum compared with community standards. Of course, only the lowest



incomes will be frozen.

Professor Harper, the chair of the Fair Pay Commission, refused to increase wages because he thinks that employment decisions are based primarily on labour costs. According to this logic, more people will be hired if wages are kept low. The critical assumption is that employers are more concerned with the cost of making things than with their ability to sell those things. But another way of conceptualising this problem is that employers will not employ new workers, regardless of the wage, if additional output cannot be sold.

The idea behind the government's economic stimulus, and hence the \$900 cash splash, is that with the economy in recession consumer demand for goods and services needs some encouragement. Wages are not likely to be the major influence on employer decisions under these circumstances.

The diagnosis that the world is suffering from a recession is shared by major world economies, the International Monetary Fund, the Organisation for Economic Cooperation and Development and a

multitude of economists. Unfortunately, nobody seems to have told the Fair Pay Commission.

Higher wages can even do their bit to stimulate the economy because they add to the total demand in the system and so boost employment. If the Fair Pay Commission had granted the ACTU's claim of \$21 a week, the increase in aggregate demand would have been of the order of \$1.4 billion per year.

In the last National Australia Bank business survey, businesses were asked what was constraining their profitability.

- Around two thirds cited 'falling demand and reduced customer confidence/demand'.
- Only five per cent said wage costs even though wage costs are always a direct deduction from profit.

Thus, not even employers are saying that lower wages are central to increasing employment—those who make employment decisions blame lack of demand.

Continued on Page 14

The Australia Institute from Page 2

will support our conclusion that the Commonwealth CPRS needs to be modified to 'make room' for emissions achieved by individuals and state governments.

At the Commonwealth level, the Institute has been called to provide expert witness to a number of Senate inquiries into the CPRS, with one inquiry dedicating an entire chapter to the issue of voluntary action and concluding that 'this must be addressed'. While Minister Wong is yet to address the issue satisfactorily, she has been forced to undertake a new round of consultations with stakeholders in order to identify possible solutions. This inquiry came about in large part due to the willingness of organisations such as CHOICE and GetUp! to lobby the Minister directly. The Institute is working hard to ensure that advocacy groups such as these are aware of our research.

In addition to our work on the flaws

in the CPRS, the Institute also conducted research on the potential role of agriculture in emissions trading and the existence of perverse tax incentives to pollute. We are currently working on projects relating to the link between consumption patterns and emissions.

While the strategic focus of the Institute has been climate-change policy and tax reform, we have also conducted research relating to the increasing use of 'character tests' in security laws, the relationship between the community sector and the government and the role of markets in the vocational education sector.

All together we have published 19 papers in the past 12 months along with a wide range of submissions, book chapters, journal articles and opinion pieces. We are currently updating our website and it will soon be much easier to find the full range of our research output on the site as well as a much wider range of newspaper articles, podcasts

and even television footage relating to our research.

For a small organisation, which receives no government money and is funded entirely by the generosity of our supporters and members, I think there is little doubt that we have made a significant contribution to the national policy debate.

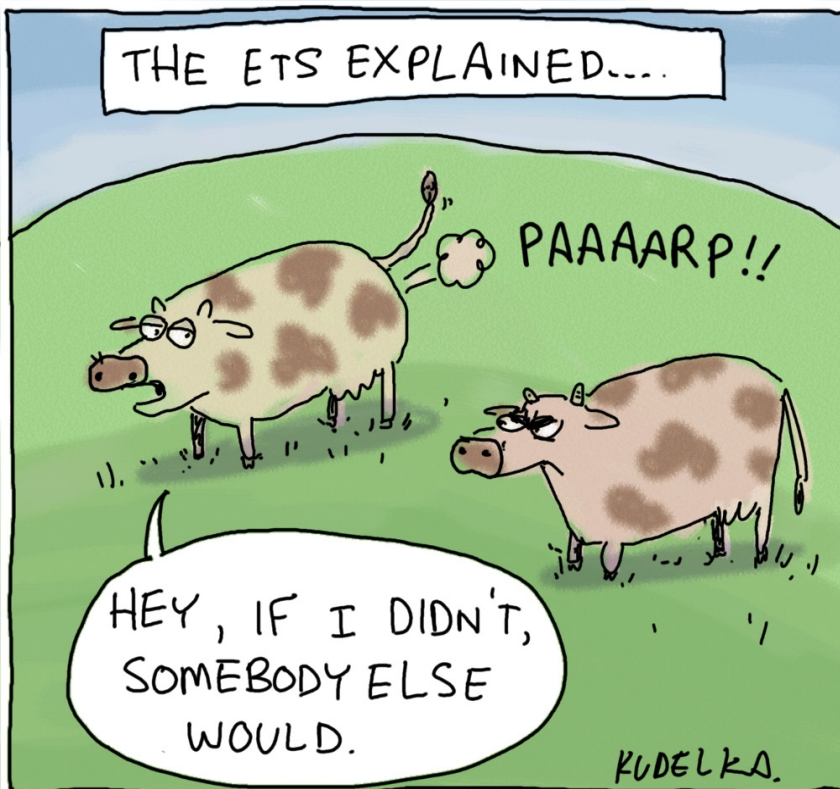
But we don't just want to solve specific policy problems; we want to help shift the entire policy debate away from the notion that markets and governments have all the answers. By selecting the right issues and locating our research in a consistent framework, I like to think we are well and truly on our way after 12 months.

So where to from here?

The Institute's new tag line is 'Research that matters'. Unfortunately, much of the research we would like to do is limited by the availability of data for the things that matter to us. Undaunted, our plan is to begin to collect our own data on the broad range of social, environmental and economic variables that are important to us. We are calling it our 'Measuring what Matters' program. Thanks in part to the generous donations we have received from our members in recent months, we will be employing an extra member of staff. This will ensure that we can keep up our existing policy work and at the same time expand our capacity to both collect and analyse data on the things that matter to us in the 21st century rather than be restricted to analysing the things that mattered to others in the 20th century.

I hope your last 12 months have been as interesting for you as members as it has been for me as Executive Director. Without the support and encouragement of our members, we literally couldn't do what we do, so please let us know if you have any concerns or ideas.

Thank you for your support. §



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Small science, big problems

Nanotechnology is a powerful new technology for taking apart and reconstructing nature at the molecular level. Unaccompanied by regulatory oversight or public debate, the first products of nanotechnology have left the lab and some predict the nanotechnology 'revolution' has begun. Georgia Miller looks at some growing problems.

Nanotechnology is a powerful new technology for taking apart and reconstructing nature at the molecular level. Unaccompanied by regulatory oversight or public debate, the first products of nanotechnology have left the lab and some predict the nanotechnology 'revolution' has begun.

If you've heard next to nothing about nanotechnology, you're not alone. Nanotechnology is being commercialised without public debate or any serious attempt to involve the community in decision-making. Despite growing evidence that many commercially used 'nanomaterials' pose serious toxicity risks for people and the environment, nano-products remain effectively unregulated.

Several hundred commercially available products now contain manufactured nanomaterials. These include transparent sunscreens, light-diffracting cosmetics, antibacterial children's toys, penetration-enhanced moisturisers, stain and odour repellent fabrics, scratch-proof sunglasses, long-lasting paints and furniture varnishes, industrial catalysts, fuel cells, burn and wound dressings, more potent agrochemicals, food packaging and 'health' supplements.

Nanotechnology products expected within the next 10 years include more complex nanodevices for manufacturing, targeted pharmaceuticals, personalised interactive foods that can change colour, flavour and nutritional content in response to a person's dietary needs, more efficient solar cells, high-performance electronics, data storage and communication tools, tools for ubiquitous surveillance in

agricultural, civil and military contexts and a vast array of military applications.

Because none of the hundreds of nano-products now stocked in supermarkets, department stores or pharmacies faces mandatory labelling, there is no way for a member of the public to make an informed decision about whether or not to buy a nano-product. There is similarly no way for a worker to know whether or not they face occupational exposure to manufactured nanomaterials.

In one experiment, mice deaths from mesothelioma were greater following exposure to carbon nanotubes than to the most potent form of asbestos.

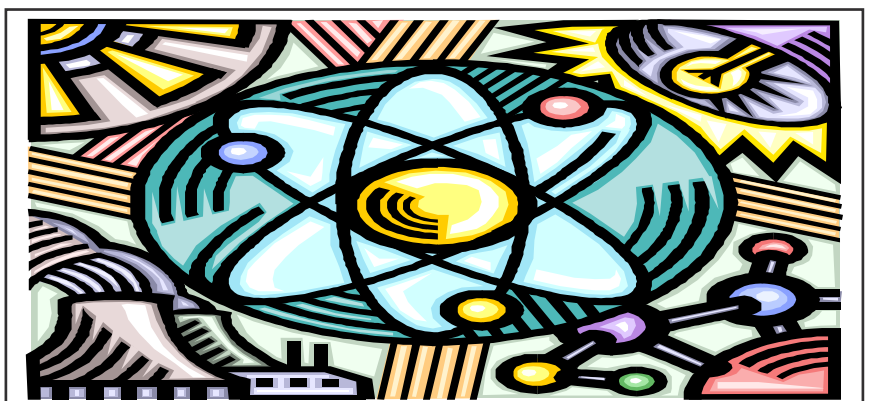
Worse, not a single nano-product sold in Australia has been subject to a nano-specific safety assessment process. Despite the fact that nanomaterials are used for their novel properties, Australian regulation is blind to the critical issue of particle size. Incredibly, the use of a substance in nano-form triggers no new safety assessment if the substance has previously been approved for use in larger form.

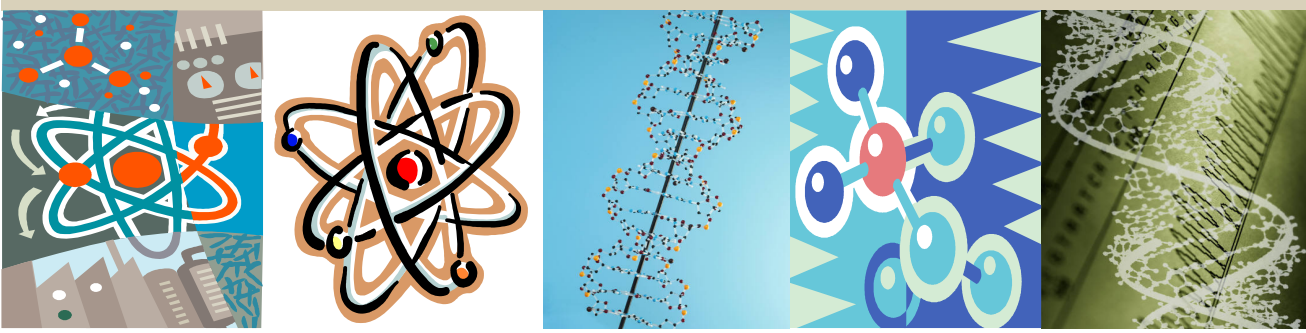
This is worrying given the emerging evidence that many manufactured nanomaterials show considerably greater toxicity than the same substances in bulk form. This is true of substances such as nanoscale zinc, zinc oxide, silver and titanium dioxide which are already in wide-scale commercial use.

The greatest concern exists over carbon nanotubes, extremely small cylinders of carbon atoms. Last year, two separate studies showed that some forms of carbon nanotubes cause asbestos-like disease. In one experiment, mice deaths from mesothelioma were greater following exposure to carbon nanotubes than to the most potent form of asbestos.

One of Australia's leading workplace safety lawyers, Michael Tooma, has warned that Australia's experience with asbestos should serve as a warning to people seduced by the lustre of nanotechnology breakthroughs. He cautions that employers could face big future compensation payouts if they don't protect workers from unsafe nano-exposure.

In 2004, The Royal Society in the UK recommended that all nano-ingredients should face mandatory new safety testing before being





permitted for use in products. Yet five years later, there is still no requirement for product manufacturers to conduct new safety tests of manufactured nano-ingredients and no requirement to identify on product labels the presence of manufactured nanomaterials.

Beyond basic safety issues, nanotechnology poses a range of broader social challenges. The National Nanotechnology Strategy Taskforce in Australia has predicted that nanotechnology 'has the potential to fundamentally alter the way people live'. Yet there has been a dearth of critical discussion about whether such large-scale change can be managed in the public interest.

Addressing social dimensions will be critical to building confidence in the government's capacity to manage nanotechnology to meet public priorities and aspirations. Yet despite nanotechnology develop-

ment being driven in large part by public money, no opportunity exists for public preferences to guide decision-making about research priorities, government strategy or governance issues. Friends of the Earth is concerned that, although everyone in the community will be exposed to new risks, the benefits of using nanomaterials may be either trivial or unevenly distributed.

In the context of converging food, climate, energy and financial crises, proponents suggest that nanotechnology will offer solutions to poverty, hunger and disease. Yet socioeconomic inequity increased during the 1990s, despite the huge array of technological developments. A new, capital-intensive, patent-controlled wave of technological innovation won't address the root causes of inequality. Its beneficiaries are likely to be those countries with the resources to invest and patent early.

Despite growing evidence that many commercially used 'nanomaterials' pose serious toxicity risks for people and the environment, nano-products remain effectively unregulated.

Failure to support genuine public participation in nanotechnology policy development, to address broader social issues and to ensure precautionary management of risks could result in a public backlash against nanotechnology. As visiting US academic Professor Bruce Bimber from the Center for Nanotechnology in Society at the University of California has warned, 'We have to pay attention to nanotechnology before it hits us on the head'.

Georgia Miller is the coordinator of the Friends of the Earth Nanotechnology Project. <http://nano.foe.org.au>.

Inequality from Page 11

Higher wages can even do their bit to stimulate the economy because they add to the total demand in the system and so boost employment.

The results of the National Australia Bank survey provide a clear endorsement of the logic behind the stimulus and a rejection of the thinking behind the wages freeze. In addition, the survey showed that, since the recession began, employers have become more concerned about demand and less concerned about wage costs. By contrast, Professor Harper relies

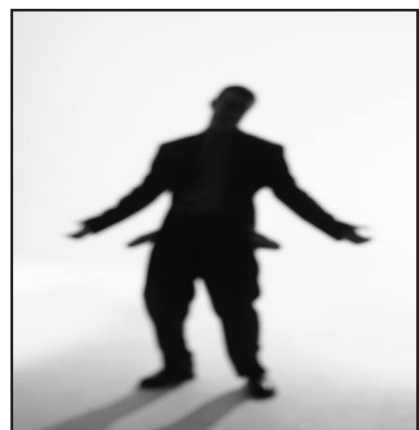
on a consultant's report that claims the opposite.

We are told that we now operate in an era of 'evidence-based policy' so why was the evidence produced by the National Australia Bank survey ignored? The Fair Pay Commission appears to have made its decision based on preconceived notions and, as a result, has delivered a flawed and inequitable outcome.

Over a million Australians are poorer today because Professor Harper has failed to understand how the recession is panning out. Inequality will increase as a result of this decision. Unfortunately, this has exacerbated the inequality already inflicted by the latest instalment of

the John Howard tax cuts that were unashamedly skewed towards the rich.

The Fair Pay Commission will always be famous, or indeed infamous, for its recent decision. §



Institute out and about

The events calendar over the autumn and winter months continued to be dominated by the topic of climate change and the government's proposed CPRS.

Events of note included:

1. A Hawke Centre Forum in Adelaide, at which Richard Denniss joined TAI Director Barbara Pocock to discuss 'Environmental Sustainability, Work, Life and Consumption'. An audio recording of the forum is available at: http://www.unisa.edu.au/hawkecentre/events/2009events/env_sustainability.asp. An interview with Deutsche Welle's award-winning environmental program (in English) *Living Planet* is available at: <http://www.dw-world.de/dw/0,,3072,00.html>.
2. The Australian Fabians invited Richard to speak to them in Canberra, Melbourne and Adelaide on the thought-provoking subject, 'If markets are so bad, how come they can save the planet?'
3. The Dunstan Environment Dialogues at which Richard discussed 'The Water Rush of the 21st Century'.
4. In Canberra, the Institute co-hosted a seminar with the ANU's Australia South Asia Research Centre on the topic of 'Poverty and sustainability in developing countries—the impact of international trade in carbon'. To read a transcript of the ABC's Radio Australia coverage, go to: <http://www.radioaustralia.net.au/asiapac/stories/200906/s2600129.htm>.
5. Richard also travelled to Sydney, Bermagui and the Sutherland Shire to talk about the Institute's research into the government's proposed CPRS.

Other events at which the Institute was represented included:

1. A Melbourne Conversations public lecture on 'The Global Financial Crisis: spending, stock markets, savings and employment' at which both Richard and TAI Director Sharan Burrow spoke. A video recording of both speeches is available at: <http://www.themonthly.com.au/node/1609>.
2. The Adelaide Festival of Ideas.

Institute in the media



Richard Denniss discuss the coal industry with the Australian Coal Association's Executive Director Ralph Hillman on ABC's *Lateline* at

<http://www.abc.net.au/lateline/content/2008/s2575402.htm>.



David Richardson outline why the official unemployment rate is not an accurate reflection of the number of jobless in Australia at

<http://blogs.bnet.au.com.au/aussierules/2009/06/14/the-hidden-unemployed-btalk-australia/>.



'Where has all the revenue gone' by David Richardson at: <http://www.abc.net.au/news/stories/2009/05/11/2566830.htm>.

New publications

- D Ingles and R Denniss, *Increasing the NewStart Allowance: a necessary part of equitable fiscal stimulus*, Research Paper 60, February 2009.
- D Ingles, *The great superannuation tax concession rort*, Research Paper 61, February 2009.
- D Richardson and T Fletcher, *Long overdue: the macro-economic benefits of paid parental leave*, Policy Brief No. 1, April 2009.
- D Ingles, *Tax equity: reforming capital gains taxation in Australia*, Technical Brief No. 1, April 2009.
- D Richardson, *Where has all the revenue gone? To tax cuts for the rich*, Technical Brief No. 2, May 2009.
- D Richardson, *The benefits of the mining boom: where did they go?* Technical Brief No. 3, May 2009.
- R Denniss, *State of denial: the impact of the CPRS on state government budgets*, Policy Brief No. 2, June 2009.

Forthcoming publications

- Removing poverty traps in the tax/transfer system
- Climate change and the Pacific
- Individual motivation and climate change

Most members will have received our letter at the end of May explaining the challenge grant suggested by one of our principal benefactors. Basically, it means that they will give us a dollar for every dollar we can raise from other sources. The letter asked our members to help if they were able and the result has been overwhelming. We have raised nearly \$30,000 and are well on the way to achieving our goal by the end of September.

All at the Institute would like to thank our members who have risen so valiantly to the challenge. Not only is it a real endorsement of our work, which is encouraging in itself, it will provide us with the funds to engage in even more research aimed at making a difference to policy and outcomes in Australia.

We will keep you abreast of developments with regard to the challenge grant over the next couple of months. We have every expectations of being able to reach, and perhaps even exceed, the target we have been set.

Institute people—David Richardson

I studied economics at Flinders University and did my post-graduate studies at the University of New England where I also taught economics, later moving to the University of Western Australia. The jobs I had always seemed to be threatened by the Fraser Government's budget cuts; I felt I was constantly one step ahead of Fraser's axe.

I made it to Canberra at the very end of the 1970s and worked in the economics section of the Legislative Research Service, part of the Parliamentary Library. During the Hawke/Keating Government I was invited to work for Brian Howe and then for Senator Nick Bolkus during a period when he held a number of portfolios, ending up with Immigration and Ethnic Affairs.

A few decades in the Parliamentary environment means you pick up a pretty good understanding of the Australian economy and government as well as an ability to work quickly and meet critical deadlines. I can wince privately at the memory of some of my early blunders—but that also tells me I have developed a lot since the 1970s.

After Labor's loss at the 1996 election, it was back to the Parliamentary Library, then a bit of time as a consultant until I joined The Australia Institute in the middle of 2008. Taxation, labour market issues, the resources boom, foreign investment, paid parental leave, banking, public finance, industry policy and carbon emissions are some of the areas I have been involved with. Those are the types of areas I plan to continue with in the future; but anything can happen as events unfold!