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An outbreak of democracy?

After what can only be described as the most desultory election campaign in modern political history, the result has not just been a cliff hanger—it has been genuinely reformative. Richard Denniss is hopeful that the new parliamentary paradigm will be a positive one.

The first casualty of the hung parliament appears to be Julia Gillard's Citizens' Assembly on climate change. The second is the long-standing practice of ministers refusing to provide answers at what is optimistically referred to as Question Time.

In exchange for support from the Greens in the lower house, the ALP has promised referendum on constitutional recognition for Indigenous Australians and local government. Eight years into the war in Afghanistan, there will finally be a parliamentary debate on Australia's role in that conflict and, on the policy front, the ALP has promised, among other things:

- a parliamentary budget office
- truth in political advertising
- reform to political donations
- a commitment to consider boosting spending on dental care in the next Budget.

In addition, there will be inquiries

into fast rail and a climate-change committee populated exclusively by MPs who believe a price on carbon is necessary.

Andrew Wilkie, the new independent member for the Hobart-based seat of Denison, has secured new funds for the Royal Hobart Hospital and significant reforms to pokies.

The so-called 'country independents' managed to ensure that both the ALP and Coalition agreed to a raft of reforms to the way parliament works before they announced who they would support. Smart. While Bob Katter finally chose the Coalition, Tony Windsor and Rob Oakeshott endorsed the ALP in exchange for a wide-ranging suite of initiatives for regional Australia. The eloquence and intelligence with which both of these MPs prosecuted their case ensured that the majority of city voters seem quite happy that additional funds will be directed towards Australia's vast regional areas.

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Can anybody suggest that a narrow win by either the ALP or the Coalition would have led to anything like this outbreak of democracy? After what can only be described as the most desultory election campaign in modern political history, the result has not just been a cliff hanger—it has been genuinely reformative.

In order to understand the enormous policy opportunities that the next three years present, it is necessary to describe how it was that Australia's system of parliamentary democracy had become so stagnant.

The 'lack of certainty' associated with the composition of the new parliament is likely to provide the best conditions we have seen for serious action on climate change.

The first problem involves the determined efforts of both the ALP and the Coalition to entrench a two-party system. Everything from the way that public funding for elections is provided to the way that the 'leaders' debates' are organised serves to reinforce the idea that there are only two parties to choose from. Even the architecture of Parliament House is designed to accommodate two parties. The House of Representatives chamber was not designed with a third or, heaven forbid, a fourth or fifth party leader in mind.

The second major problem is the rigid party discipline that both major parties impose on their members of parliament. While the US and the UK (until recently at least) have had stable two-party systems, 'crossing the floor' is so common that it is simply thought of as 'voting'. Backbenchers in the UK frequently cross the

floor and any member of the US Congress who put their party leader's opinion ahead of their local constituency on a big issue would be unlikely to be voting on legislation for long.

In Australia, the combination of an entrenched two-party system (in the lower house at least) and rigid party discipline has led to the situation that debate, if it existed at all, took place entirely behind closed doors. The resulting 'public debate' descended into two groups of politicians determined to 'stay on message'. Some of the best debaters in the country were forced to mouth some of the most banal statements over and over again. Any deviation from the script would be pounced on as 'division' or a 'gaffe'. As the swing to the Greens and the informal vote showed, millions of Australians are sick of it.

The other big problem with our political system is that both parties have spent too long reading the same books on political strategy, sitting in the same focus groups and chasing the esteem of the same coterie of commentators. Just as consumer goods all begin to look similar after a while, our major political parties have also become pale imitations of each other. This is not to suggest that they are the same—rather that neither party has been willing to em-

phasise its differences for fear of 'making themselves the story'. The modern day maxim is 'keep it bland and play the man'.

And then came the 2010 federal election.

With the Greens holding the balance of power in the Senate, there is a real possibility that legislation passed in the lower house could be passed in the upper house as well.

Each of the two major parties tried to make itself a small target. Each side of politics eschewed a reform agenda preferring instead to sell 'steady as she goes'. And each side of politics hoped to convert cynicism about its opponents into a mandate to govern. They both lost.

During the election and after it, the ALP and the Coalition became the target. The voters pilloried them and denied either a mandate to govern in its own right. There are now four genuinely independent members of the lower house along with the first Green elected to the House of Representatives (at a general election) as well as a member of the West Australian Nationals who is adamant that he will not attend Coalition party-room meetings and will vote according to his judgement of the best interests of his electorate.

Can you imagine that: politicians sitting in parliament, listening to debates about legislation and making up their own minds about how they will vote on an issue-by-issue basis? It gets better though.

The independents and Greens have ensured that 'private members bills' will not merely be introduced into parlia-

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Money and power

The power of big business in Australia and around the world has been steadily increasing for decades, with business now able to dictate terms to government. Josh Fear examines this phenomenon and concludes that the time has come to do something about the ability of corporations to insert themselves into every aspect of modern life.

Recent events have shown how much the interests of corporations now dominate the political process. Mining companies mobilised more quickly than government to challenge the resource rent tax and effectively brought down a prime minister.

Last year, constant pressure from the carbon lobby turned an emissions trading scheme into little more than a compensation scheme for big polluters. The argument over the watered-down legislation then brought down an Opposition leader.

The public clearly wants government to do something about the degree of power that corporations enjoy in Australia.

Politicians are intelligent creatures; they have learnt that it is best to avoid doing anything visionary lest they attract the ire of business leaders as channelled through the national broadsheets. Endemic risk-aversion now means that policy is crafted so as to annoy the fewest people, including the vocal business sector. Anyone who has seen a Regulatory Impact Statement knows how public servants are trained to pre-empt the objections of the private sector to any change that might affect business.

But political systems merely reflect the society that gives rise to them. And we live in a society, and a world, where the power of corporations is much greater than that of 'ordinary' people. Corporate power can readily be seen in our homes, our workplaces, our public spaces and our national debates.



Most often we just accept this state of affairs but that doesn't mean we like it. In a survey of 1,360 Australians conducted by The Australia Institute, four in five people agreed that 'big business has too much influence over everyday life' and that 'big business has too much influence over government decision-making'. Meanwhile, only one in four agreed that 'it is acceptable for big business to influence the political process'.

Of course, in any capitalist economy, business activity will form the foundation for employment and wealth creation. But encouraging entrepreneurialism does not necessarily mean promoting the interests of mega-corporations or ceding to their demands. In fact, we elect representatives to do precisely the opposite on occasion.

One area where our leaders have refused to take decisive action is banking. The big four banks now control more than 75 per cent of all bank assets, and banks account for over 90 per cent of all lending in Australia. This level of concentration has distorted competition, allowing the big banks to reap underlying profits of around \$35 bil-

lion a year, including \$20 billion in 'super-profits' attributable to their market power.

(See 'Banks behaving badly' on Page 7 for the Institute's findings on the banks' marketing of debt and the need for better regulation.)

We live in a society, and a world, where the power of corporations is much greater than that of 'ordinary' people.

The recent furore over the mining tax also showed how powerful the resources sector is at influencing the political debate. The scare campaign whipped up by a handful of wealthy miners saw a policy that should have been easy to sell—effectively giving back what is rightfully theirs to the citizens of Australia—become lost in a debate about what constitutes 'super profits'.

Yet the public clearly wants government to do something about the degree of power that corporations enjoy in Australia. Seventy per cent of survey respondents said that there should be more regulation of big business while only four per cent

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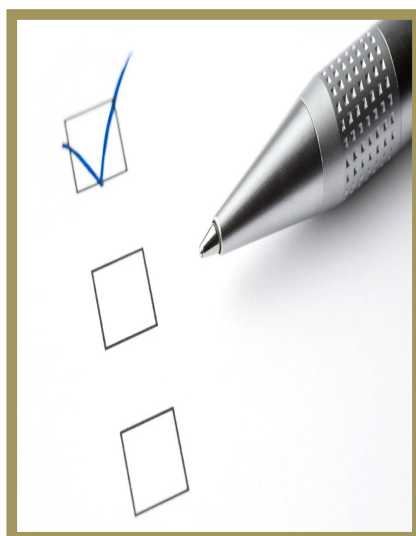
ment but actually debated and voted upon. What that means is that the government of the day will no longer have a monopoly on the capacity to draft a piece of legislation and have it both debated and voted on. The implications of such a shift are enormous.

Can anybody suggest that a narrow win by either the ALP or the Coalition would have led to anything like this outbreak of democracy?

The major political parties have colluded to keep a wide range of important debates out of the public eye for decades. Issues such as voluntary euthanasia, same-sex marriage, political donations by corporations, junk-food advertising to children and the need to regulate poker machines have been deliberately 'starved of oxygen' by the party leaders. There are a number of reasons for this collusion but the simplest, and most important, is the diverse and strongly held views about these issues on both sides of politics. Rather than risk 'division', the parties have preferred silence instead.

Not any more.

Now that the independents and Greens will have more opportunity to introduce their own legislation and, importantly, force a vote on it,



we will finally get to see what our elected representatives think about these and other issues. And with the Greens holding the balance of power in the Senate, there is a real possibility that legislation passed in the lower house could be passed in the upper house as well. Indeed, it is entirely conceivable that the Coalition, independents and Greens could combine to pass legislation through both houses of parliament even in the face of 'opposition' from the ALP Government.

Perhaps ironically, the 'lack of certainty' associated with the composition of the new parliament is likely to provide the best conditions we have seen for serious action on climate change. With luck, we will see legislation to introduce a simple carbon tax in the next 12 months. Why a carbon tax rather than an emissions trading scheme? Leaving aside the economic arguments, the politics of a carbon tax will be much simpler. Rather than having to agree today on what constitutes an 'ambitious' target for 2020, a carbon tax simply requires the parties to agree on what a reasonable starting price for carbon should be.

If the ALP, independents and Greens can agree on a carbon tax in the term of this government, it is

likely to stay in place regardless of the result at the next election. Even if the Coalition were to win the next election, it would need to pass any legislation to abolish a carbon tax through the Senate, given that a law needs to be passed by both houses of parliament. The six Green senators elected in the 2010 election will serve six-year terms so that the chances of the Coalition subsequently scrapping such a scheme are slim.

Both parties have spent too long reading the same books on political strategy, sitting in the same focus groups and chasing the esteem of the same coterie of commentators.

The most boring election in recent history has not just delivered the most interesting result, it is likely to deliver one of the most creative and genuinely democratic terms of parliament in living memory. It is not inevitable that our elected representatives will live up to the opportunities before them but it is inevitable that the next election will see far more debate about policy and far less debate about how many debates there should be. §

said there should be less. When asked what kind of regulation this might be, they typically nominated greater protection for consumers and workers and the environment.

At present, the political will to enact such reforms appears to be largely absent. In fact, mainstream politicians seem inclined to grant further concessions rather than revoke existing ones. But underlying community resentment about corporate power feeds into a wide range of disputes across the policy spectrum.

For decades, the public has been subjected to corporate waffle about 'innovation', 'competition' and 'choice', often from the mouths of politicians. Inasmuch as these terms mean anything at all, they have been code for the need to deregulate markets and privatise public assets. Strangely enough, such developments have usually favoured big business over ordinary people.

It is time to wrest back some of the power that corporations have acquired at our expense and put it back where it belongs—in the hands of the people. §

MONEY AND POWER

The Institute's paper *Money and Power: The case for better regulation in banking* was launched in Sydney in August at the conference on Money and Power: How much is too much for corporate



Australia?, co-hosted by The Australia Institute and Catalyst Australia. Speakers included Bernie Fraser (former Governor of the Reserve Bank of Australia), Christopher Zinn (CHOICE), Tony Maher (CFMEU), Lee Rhiannon (Greens NSW) and Jack Gray (UTS).

The conference was a welcome opportunity to debate some of the issues that didn't feature in the election campaign, such as political donations, executive salaries, and the real reasons why Australia hasn't yet put a price on carbon.

We were delighted with the media coverage of our new research, which included a number of high-profile interviews and press articles. We have had enormous positive feedback about the conference from participants and speakers. This year's conference was a follow-up to last year's event, Crunch Time: Australia's Policy Future. We hope to make these conferences an annual event.

Overloading Australia

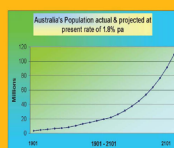
This book, by Mark O'Connor and William J Lines, has been revised several times since its first edition and has contributed significantly to the population debate in Australia.

Australia's current rate of population growth suggests that the number of people in the country will pass 100 million by the end of the century. While business people advocate a higher population and governments approve because larger numbers assist economic growth, not many people are addressing the failure to provide infrastructure or the concern that this hot, dry continent might not be capable of supporting such large numbers of people.

This is the book that put the skids under "big Australia" — and starts the debate on what size we should grow to.

The press of numbers on this continent affects us all — those living, as well as those yet to be born. To talk of saving the environment or of climate change is meaningless if we won't address population growth, and take on those who profit by it. In a score of punchy chapters, authors Mark O'Connor and William Lines challenge the myths, expose the facts, and dent the denial industry.

They blow the whistle on population-foolish policies that lead to clogged roads, water shortages, scarce food, and no place for refugees; then provide new and fair ways to think about the issues and to limit Australia's future population-size.



This is a book that will revolutionize the green debate, and the political debate, on population.



4th edition

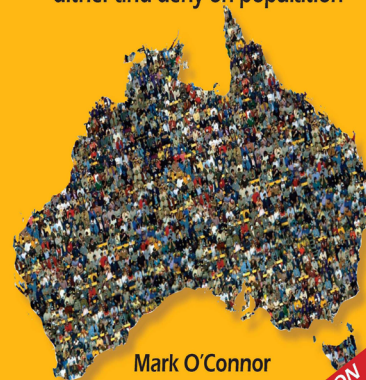
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OVERLOADING AUSTRALIA

4th edition

Overloading Australia

How governments and media dither and deny on population



Mark O'Connor
William J. Lines

V · I · E · W · P · N · T · S

FOURTH EDITION
— REVISED —

REVIEW

David Richardson reviews the talk given by Professor Joseph Stiglitz at the Opera House on 7 August 2010.

Recently, at the Sydney Opera House, The Australia Institute and the Economic Society of Australia hosted a talk by Nobel Laureate Economist Joseph Stiglitz entitled 'Why economics matters: Looking at global challenges through an economic lens'. In his address, Professor Stiglitz addressed some of the biggest economic problems currently facing mankind.

On the question of global unemployment, he pointed out that much of modern economics is no help because it is based on models of the economy in which unemployment cannot exist. He made the point that Australia's experience of the global financial crisis has been considerably better than many of the northern hemisphere countries largely because the Australian stimulus package was well-designed. Australia's other contribution, apparently, was to invent the acronym GFC for the 'global financial crisis'.

Stiglitz stressed that the global financial crisis was clearly labelled 'made in the USA'. That incentives matter is one of his themes and he concentrated on the perverse incentives in the US financial system, which encouraged short-sighted behaviour and excessive risk-taking. It should have come as no surprise that senior officials in the finance system behaved recklessly. In particular, companies were managed and controlled by people who did not own them, raising serious corporate governance problems. Some of these executives were paid very high incomes, almost inventing their own incentive payments, to manage other people's capital.

The collapse of the financial system in the US has shattered the myth that people's incomes are governed by their contribution to productive activity. The massive bonuses in the finance industry may have been called 'incentive payments' but they bore no relation to the actual contribution made by senior executives to their companies' profitability in the long term. In fact, Stiglitz observed, the very people who made such a negative contribution to society had received the largest bonuses.

Professor Stiglitz also spent a good deal of time discussing global warming, something Australia has to take very seriously given its lack of water and the risk of losing natural assets like the Great Barrier Reef. This is an example of another case where incentives are perverse. There is no price on carbon, which means people will treat the air as if it were free; there is also no incentive to prevent carbon emissions. A positive price would be an incentive not to waste. Countries that respond with a carbon price will develop an economic system that treats resources like atmospheric carbon dioxide as scarce. As Stiglitz put it, it is better to tax bad things rather than good things.

But in addition to tax, Stiglitz clearly sees a case for government regulation and rule-making to supplement price signals, mainly because the market is subject to many imperfections. He noted the role for regulation, in particular with respect to motor vehicle mileage standards and the banning of coal in new power plants.

At the end of question time, just to make sure there could be no ambiguity, The Australia Institute's Executive Director, Richard Denniss, asked Stiglitz if a carbon tax would be good or bad and he stated clearly and firmly that it would be 'good'. He also expressed the view that with a price on carbon and other pollution, economic growth is consistent with safeguarding the environment. That led him on to another subject, one to which he has devoted significant time—global poverty.

Around two billion people are living at barely subsistence levels. Clearly, poverty means fewer economic resources, less education, poorer health conditions and other undesirable circumstances. Stiglitz is particularly scathing about the international rules of the game, for instance the rules governing world trade and how they perpetuate third-world poverty. Colonialism and imperialism entrenched poverty in earlier periods; now laws such as intellectual property rights, which prevent access to affordable medicines, are having a similar effect. Knowledge, which should be available to everyone, is restricted to those who can pay; for example genetic tests for predisposition to breast cancer are expensive purely because of patents covering cancer genes. Patents and other intellectual property rights, in fact, become a means of discouraging innovation where it could be of most use.

Professor Stiglitz left everyone with much to think about and in summing up Richard Denniss thanked him for doing what he does particularly well—'making economics so accessible and so simple'.

The video of the Stiglitz lecture is available from the Sydney Opera House website <http://play.sydneyopera-house.com/index.php/Talks/joseph-stiglitz.html>.

Banks behaving badly

The big four banks now dominate the banking market. Their power has seen off most competition over the years and led to a virtual monopoly in the financial services area. Josh Fear considers how the public interest fares in this situation.



Mistrust of big banks is almost an article of faith in Australia. Since the heady days of financial deregulation in the 1980s, when banks closed rural branches and foreclosed on family farms, many people in the community have questioned whether banks are living up to their responsibilities to society as conscientiously as they are to their shareholders.

Politicians habitually exploit community concerns about bank profits by engaging in finger-wagging, but any actions they take are usually symbolic: witness the Rudd Government's failed attempt to encourage consumers to switch banks to get a better deal. Governments mouth platitudes about the need to promote 'competition' but are terrified of doing anything that might work against the interests of the big four banks.

This is because the major banks have acquired an unprecedented level of power.

The big four banks now control more than 75 per cent of all bank assets, and banks account for over

90 per cent of all lending in Australia. This level of concentration has distorted competition, allowing the big banks to reap underlying profits of around \$35 billion a year, including \$20 billion in 'super-profits' attributable to their market power.

Indeed the Commonwealth Bank of Australia recently reported a record profit of \$6.1 billion (after tax), up more than 40 per cent on last year.

The banks' underlying profits equate to almost three per cent of GDP, up from less than one per cent a quarter of a century ago. Of every \$100 spent in Australia, nearly \$3 ends up as underlying profit for the banks.

Is this extreme profitability in the public interest? Many workers hold shares in banks indirectly through superannuation and, therefore, arguably receive a share of their profits. Yet the distribution of share ownership means that the wealthiest Australians capture most of the dividends flowing from bank profits. And in other important respects, the behaviour of the banks runs counter to the interests of the broader community.

Many people in the community have questioned whether banks are living up to their responsibilities to society as conscientiously as they are to their shareholders.

Traditionally, banks have served a social as well as an economic function, providing a service to the community and controlling the supply of credit. But modern banking practice involves striving for maximum market share, even if this means



acting against the interests of individual customers or the community as a whole. The logic of maximising shareholder value has put the marketing of debt, through credit cards and housing loans, at the centre of the banking endeavour.

New survey research by The Australia Institute reveals the extraordinary extent to which ordinary Australians are offered new credit products, often without having asked for it. Two in three respondents reported receiving an unsolicited offer for a new credit card in the past 12 months, while one in two had received an unsolicited offer to increase their credit-card limit.

More worryingly, a majority of respondents who were not in paid employment had received an unsolicited offer for a new credit card. Similarly, one in three people living in a low-income household had been offered a personal loan without seeking one out.

When faced with calls for greater

Continued on Page 8



Banks behaving badly from Page 7

regulation, banks argue that individuals are responsible for their own financial decisions. Informed consumers, they insist, will behave rationally to ensure competitive discipline in the market, which will in turn bring about socially optimal outcomes.

The big banks reap underlying profits of around \$35 billion a year, including \$20 billion in 'super-profits' attributable to their market power.

In the real world we know this simply isn't true. When people are asked to make financial decisions that they do not fully understand, they often rely on other people for help, particularly people whom they regard as better qualified or informed. In the case of bank products, people often rely on the advice they receive from bank workers.

What is not well understood is that bank workers in Australia are often paid commissions to sell their

bank's products. The more products they sell—the more debt they convince customers to take on—the more money they make.

Banks also spend enormous sums of money on advertising: more than \$1 billion in 2008–09. Put into perspective, this is more than it costs to run the ABC.

All this marketing allows banks to take maximum advantage of the confusion and disinterest that consumers feel when faced with financial choices. And while constant marketing can maximise shareholder returns, the effect on broader society is a negative one.

It is the responsibility of government to ensure that banks behave in ways that are consistent with the public interest rather than 'leaving it to the market'. A recent Treasury Green Paper floated the idea of

preventing banks from pursuing debts for loans made to people who never had the capacity to pay in the first place. So long as it is properly enforced, this measure would go a long way towards changing the way banks behave.

Sales targets and commissions for bank workers should also be restricted or banned. Such practices are in the interests of neither customers nor the workers themselves.

These reforms should constitute part of a formal social contract between individual banks and government; ratifying the social contract would then become a condition of maintaining a banking licence. Without this kind of policy intervention, the profits of the big banks will only get bigger, and at the community's expense. §

Money and Power: The case for better regulation in banking also recommended banning the practice of 'pre-approving' credit-card offers and/or credit extensions. During the election campaign, the Prime Minister announced that a Gillard Government would prevent banks from offering unsolicited credit-card increases.

Profit taking

The end of the financial year reporting season saw another boon in the fortunes of the mining industry. BHP Billiton announced a pre-tax profit of \$19.6 billion, up 68 per cent on last year's profit. Net after-tax profit increased by an incredible 116 per cent.

BHP Billiton did not suddenly become a great deal cleverer or more skilful at running its business; it increased profit dramatically because the rest of the world, and especially China, is thirsty for Australian commodities. This is why there is great merit in the idea of taxing the super profits of miners.

Of the big four banks, only the Commonwealth Bank has reported its profits to date. (The financial year of the other three ends on 30 September.) However, we can still estimate the annual equivalent of the big four banks' profits by extrapolating from their quarterly results. Taking their after-tax cash profit and converting quarterly figures into annual equivalents results in a figure of \$20.9 billion—almost \$1,000 for every man, woman and child in Australia and around \$2,500 per household.

Pre-tax (how everyone else quotes their income), the big-four profit figure is likely to be around \$29 billion. Adding back their charges for bad or doubtful debts, running at around \$2 billion a quarter, increases underlying profit to \$37 billion. This seems like an incredible profit for four companies that are providing an essential service.

Green jobs

In their paper entitled *Green jobs: what are they and do we need them?* the authors, Cameron Eren, Richard Denniss and David Richardson, attempt to define what a green job actually is, an exercise that proves far more difficult than mere semantics. They then ask how green jobs are linked to environmental policy.

Despite a great deal of enthusiasm about green jobs during the CPRS debate, there was surprisingly little interest in what the concept actually means. Given that the precise definition of a green job will ultimately determine both the environmental effectiveness of the growing body of green-collar workers and the value received in return for significant public investment, the absence of a cogent definition is a cause for concern.

Is a green job one that actively contributes to the long-term transformation of society into a more ecologically sustainable form? A firm that produces wind turbines, for example, is clearly contributing to the transition to a sustainable energy system but should the jobs of those who manufactured the steel and aluminium from which the turbines are made also be classified as green?

Differing approaches to climate policy should not be assessed, supported or rejected on the basis of the number of green jobs they create.

What about those who work in industries with low environmental impacts? Should the small ecological footprint of a job be enough to earn itself the title of a green job? Although these industries tend to rely more heavily on human capital and less heavily on physical capital, is it meaningful to categorise all jobs in the entire service sector as green?

Is it possible to class a job that marginally reduces the impact of a resource-intensive industry such as mining as a green job? For in-

stance, are those who clean up oil spills working in green jobs? If not, it would appear inconsistent to categorise those working in environmental remediation roles as having green jobs when the only difference between such roles is that the initial damage was unintentional in the case of the oil spill and intentional in the case of the mine.

A low-carbon economy is an economy in which the dominant production and consumption activities require much less energy.

The difficulties of defining green jobs are much greater than mere semantics. If green-job creation is to be considered a legitimate role for government, it is important to define clearly what the outcome is and why governments would seek to pursue it. Protecting the environment is clearly a role for

government as is encouraging full employment. Unless the concept of a green job is clearly defined, however, it is not clear that either objective will be achieved via the pursuit of 'green-job creation'.

It was an article of faith that the CPRS would underpin a green jobs 'revolution' in Australia. During the opening address to the 2009 Australian Labor Party National Conference, Prime Minister Kevin Rudd declared:

The climate change sceptics constantly scare-monger about the possible loss of jobs through the transition to a lower carbon economy. But they constantly fail to talk about the new clean energy jobs of the future which will arise from the introduction of the Carbon Pollution Reduction Scheme, the renewable energy target and energy efficiency measures in the future.

Despite the former Prime Minister
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ter's comments, the unrestricted international carbon-offsetting provisions contained in the policy would have delivered up to 114,000 fewer jobs in the Australian clean-energy sector by 2020 than would have transpired if emission reductions were planned through domestic investment in renewable energy. In other words, if Australia had invested in sufficient renewable-energy generation to meet its emission-reduction targets rather than simply planning to import offset permits from other countries, the result would have been up to 114,000 more people employed in the renewable-energy industry.

Green jobs will follow inevitably from effective environmental policy but effective environmental outcomes do not necessarily flow from the creation of green jobs.

But a low-carbon economy is not an economy in which large numbers of

people are employed installing insulation or building wind turbines; it is an economy in which the dominant production and consumption activities require much less energy. 'Low-impact' sectors are defined as those that require low-energy use per job created. An economy that experiences rapid growth in low-impact sectors such as health, education and community services will have a much smaller carbon footprint than an economy that supports rapidly growing manufacturing and mining industries. The re-emergence of the early 20th-century trend towards consuming productivity growth in the form of leisure rather than in the form of material consumption alone would signal a genuine move towards a low-carbon economy.

Significant investment in new energy technologies needs to be made and, in turn, many jobs will be created in the quest to reduce the carbon intensity of Australia's energy system. However, green jobs should be incidental to the



desired environmental policy outcomes pursued by governments; green jobs will follow inevitably from effective environmental policy but effective environmental outcomes do not necessarily flow from the creation of green jobs. Differing approaches to climate policy should not be assessed, supported or rejected on the basis of the number of green jobs they create. Nor should green jobs be viewed as a meaningful substitute for effective climate policy. §

The Education Tax Refund auction

Governments are addicted to tax expenditures as they permit the conferring of favours on certain groups while giving the false appearance of budget savings. David Ingles takes exception to Labor's Education Tax Refund and proposes a simpler and fairer alternative.

The Education Tax Refund (ETR), announced by the Labor Party in the 2007 election and commenced in 2008–09, is again an item of electoral contention. As is typical when tax expenditures are used, it creates a complex new instrument to reach a goal easily achievable through a direct-spending program. Rather than simply raising existing family payments for school-age children, the government chose instead to implement a complex new tax giveaway, an approach that is difficult for families to comply with and expensive to administer. The result is that those who need help the most are least likely to receive it.

Tax expenditures are monies foregone by governments when they

don't collect amounts theoretically available. Typically, they complicate the Tax Act and do not receive proper budget scrutiny. Despite these sorts of difficulties, politicians are addicted to tax expenditures since they allow them to con-

fer favours on certain groups while giving the (false) appearance of not increasing the size of government. Currently, tax expenditures cost the budget over \$100 billion annually and are a hidden arm of expenditure policy. Posting cheques





is visible; foregoing tax is not. The education rebate cost \$190 million in 2008–09 but would cost much more if families were better aware of it.

Tax expenditures are monies foregone by governments when they don't collect amounts theoretically available.

The education refund allows families to claim education expenses of up to \$750 for each child at primary school and \$1,500 for each child at secondary school. The refund covers spending on laptops, home computers, internet connection, software, textbooks, learning materials and so on. The rebate is 50 per cent of these costs, so the maximum payment for a primary-school child is \$375 and for a secondary-school child \$750.

Prime Minister Julia Gillard reminded parents recently to 'keep your receipts', but many Australian families experience difficulty claiming the rebate either through lack of knowledge or lack of documentation. *The Age* newspaper reported that up to 400,000 families missed out on almost \$400 million because they did not claim the ETR. The

Henry Tax Review noted that personal tax compliance has become inordinately complex, pointing particularly to the range of different tax rebates, concessions and deductions.

Research from the Inspector-General of Taxation has shown that those with lower household incomes are significantly more likely to fail to lodge a tax return, meaning that they are not claiming tax concessions such as the ETR. This parallels experience with the take-up of welfare benefits as documented in The Australia Institute's recent paper entitled *Missing out*.

In the latest round of election auctions, the refund is to be extended to cover half the price of school uniforms at an estimated cost of \$220 million over four years. Tony Abbott outbid that promise with a policy to extend the refund to private school fees and other tuition costs amounting to \$750 million over four years. The government says the cost will be twice that amount. Whatever one thinks of the merits of subsidising private schools, there are existing funding mechanisms which do precisely that and the rationale for introducing a new one is highly dubious.

children. The government has now promised to increase the maximum benefit for 16- to 17-year-old children to parity with that for 13- to 15-year-olds, from \$2,062 annually to \$6,161. This is a very good move (costing some \$300 million per annum), which was not matched by the Opposition. However, it still leaves this support below the \$7,542 figure which FaHCSIA modelling suggested is the rate necessary to support children in this older age group. The Henry Tax Review considers that support for children of other ages is adequate, excepting that for 12-year-olds.

Rather than simply raising family payments for school-age children, the government chose instead to implement a complex new tax giveaway.

The reality is that tax benefits are much more likely to be taken up by the well-off. Simply increasing the adequacy of FTB-A, by contrast, would be highly pro-poor. There may be merits in tied subsidies for certain sorts of education-related expenditures but if there are, they have not been clearly spelled out by either side of politics.

Tax refunds are an ineffective method of providing support to families and children. The government should consider scrapping the ETR and fully taking up the suggestion of the Henry Tax Review that FTB-A for 12-year-olds, 16- to 17-year-olds and 18-year-olds still at school, along with Youth Allowance for dependents, be raised to reflect the estimated costs of supporting children in these age groups. These are far more important priorities than fiddling with education tax rebates for the well-off. §



A similar effect to the ETR could be achieved cheaply and simply by targeted increases in the base rate of Family Tax Benefit part A (FTB-A), which the Henry Tax Review has suggested is adequate to cover the costs of the majority of younger children but inadequate for older

Quarantining justice

The Howard Government's Northern Territory Intervention Response has been harsh, discriminatory and compulsory. Nor, despite a more respectful attitude from the Labor Government, has the situation improved appreciably. David Baker examines the fallout from the policy, its high cost and the wisdom of extending it to non-Indigenous communities.

The compulsory quarantining of welfare assistance payments (or welfare quarantining) was imposed on Indigenous people living in prescribed Northern Territory communities under the Coalition Government's Northern Territory Emergency Response (NTER). This measure required the suspension of the *Racial Discrimination Act 1975*.

Under welfare quarantining, 50 per cent of selected payments can be accessed only through a Basics-Card administered by Centrelink; the money can only be spent on 'priority items' such as food, housing, clothing and utilities—not on alcohol, cigarettes or gambling.

While welfare quarantining was being rolled out across Indigenous communities, there was a change of federal government and with it an apology to the Stolen Generations. It may have been assumed by some that with the sentiment displayed by the new Labor Government, there might also be a change to the NTER.

Reinventing the policy as a program of welfare reform is a different agenda and therefore requires evidence to justify this altered approach to reform.

The new government ordered a review into the first 12 months of the NTER. Among its recommendations, the NTER Review Board (the Board) urged that the policy be made to conform to the Racial Discrimination Act.

The Board found that the benefits of welfare quarantining were 'being increasingly experienced' but

that resistance to the 'blanket imposition' of the policy continued. It noted that a person's capacity to meet family responsibilities did not determine whether or not the policy would apply to them; instead, this



was decided solely as a consequence of where they lived on a given day—21 June 2007.

The Board recommended that income management be made voluntary except on the basis of 'child protection, school enrolment and attendance and other relevant behavioural triggers'. Further, it found that income management should be part of wider financial measures, including financial literacy, banking and home management.

In response, the government introduced legislation, passed in the shadow of the recent federal election campaign, to expand welfare quarantining beyond Indigenous communities. The option of shifting to a voluntary model that has been successful in Indigenous communities outside of the Northern Terri-

tory was ignored.

While there is opposition to the compulsory nature of the policy, there is support for voluntary income management; the empowerment of welfare recipients is the difference between compulsory and voluntary forms of income management. A Senate Estimates Committee heard that 'the government might be surprised' by the numbers of people who would choose to participate if given the opportunity.

The Committee examined the three bills introduced by the government to modify NTER measures. Ninety-five submissions were received, with the:

majority of evidence provided to the committee related to the proposed reinstatement of the Racial Discrimination Act [and] to expand the geographical coverage of income management.

The Committee heard evidence that included accounts of segregated lines at supermarkets and perceptions of racism. It was also given evidence as to the cost of the program.

Non-government welfare agencies already run a range of programs that assist people to better manage their finances. The costs of these programs are considerably less than the estimated \$4,400 welfare quarantining costs.

Using the government's own funding estimates of \$400 million over five years, the ACOSS submission calculated that management costs of the scheme would be \$4,400 per person. ACOSS also provided

comparative figures.

Put into perspective, that is nearly nine times the amount paid to employment service providers to help a long-term job seeker, which is \$500 annually. It is over one-third of the Newstart Allowance paid to a single adult, which is just under \$12,000 a year.

Under welfare quarantining, 50 per cent of selected payments can only be accessed through a BasicsCard administered by Centrelink and the money can only be spent on 'priority items'.

Non-government welfare agencies already run a range of programs that assist people to better manage their finances. The costs of these programs are considerably less than the estimated \$4,400 welfare-quarantining costs.

The new member for Hasluck, Ken Wyatt MP, was interviewed on SBS radio after becoming the first Indigenous Australian to be elected to the House of Representatives.

He said that his preference was for a voluntary approach to welfare quarantining; however, in circumstances where families and children were in 'extreme risk', mandatory measures may be required.

Welfare quarantining was implemented as part of a government response to *Ampe Akelyernemane Meke Mekarle* "Little Children are Sacred", the summary report of the Northern Territory Board of Inquiry into the Protection of Indigenous Children from Sexual Abuse 2007. The policy is now being expanded as welfare reform.

The measures for preventing income from being spent on alcohol and pornography were designed to address issues covered in this report. Reinventing the policy as a program of welfare reform is a different agenda and therefore requires evidence to justify this altered approach to reform.

The new Australian parliament should review the recent expansion of welfare quarantining and the possibility of any further expansion. An evaluation that specifically



examines the basis for the policy as welfare reform and the implementation costs of welfare quarantining is required.

The experiences of people choosing to participate in voluntary income-management programs operating in North Queensland and Western Australia also needs to be examined to determine how the empowerment of choosing to participate adds to the benefits a person receives compared with the experiences of those being forced into such a program. §

Once more with feeling

During the recent election campaign, both major parties, to a large extent, sidestepped the issue of a carbon price with vague promises of action sometime in the future. Richard Denniss outlines the economic basis for such a policy and makes some suggestions about how the resulting revenue can be distributed.

While the 2007 election was fought on a promise by the ALP to introduce a carbon price, the 2010 election was fought by both the ALP and the Coalition on a promise not to do so. The promised inaction on the part of the ALP was until at least 2013 but on the part of the Coalition it was open-ended. The Greens, on the other hand, campaigned on the need for a carbon tax. The election result saw a big increase in the Green vote and the public's failure to endorse the 'agenda' of either major party.

Despite much of the election being allegedly fought on 'economic

management', neither the ALP nor the Coalition were asked to explain how it was that they simultaneously claimed to be 'good economic managers' yet were determined to ignore all economic evidence about the best way to tackle climate change.

While the politics of tackling climate change appear to be challenging for the major political parties, the economics that underpin that challenge are quite straightforward.

The election has shown just how much of a challenge new issues such as climate change are for old political structures. Consider the following: the Coalition describes its approach to tackling climate change as 'direct action', which translates roughly as support for the regulation and government intervention once primarily associated with the ALP. The ALP's major contribution to the climate-change policy debate during the 2010 election was the announcement of a 'Citizens' Assembly', which sounds reminiscent of the Greens' historical preference for consen-

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sus-based decision-making. The Greens on the other hand, have been pushing for the economic rationalist approach of relying on a carbon tax and price signals.

The election has shown just how much of a challenge new issues such as climate change are for old political structures.

While the politics of tackling climate change appear to be challenging for Australia's major political parties, the economics that underpin that challenge are quite straightforward. Although there is much debate within the economics profession about some of the minor design details of an 'optimal' suite of emission-reduction policies, there is little debate about the broad principles that should underpin a 'good' suite of policies. These principles include:

1. Removing existing subsidies that encourage the use of greenhouse-gas-emitting fuels
2. Introducing a price on greenhouse-gas emissions
3. Removing existing subsidies to renewable energy that do not deliver either low abatement cost or identifiable domestic industry development objectives
4. Investing in public transport and other public-good or natural-monopoly infrastructure to ensure that consumers can more easily respond to price signals
5. Regulating to enhance energy

efficiency when existing market failures reduce the ability of higher energy prices to deliver reduced energy consumption

6. Providing investors with certainty about the direction, if not the destination, of legislative change.

Put simply, the main principle that should underpin Australia's response to climate change is that good emission-reduction policy raises revenue for governments and that bad policy costs money.

A price on carbon is widely regarded as an essential element of an efficient response to climate change, yet such an approach has been described as a 'great big tax on everything' by opponents. While there is no doubt that putting a price on greenhouse-gas emissions will lead to an increase in the price of energy and, to a lesser extent, the price of other products, there is also no doubt that if the revenue collected from such a scheme were to be returned to households rather than used to compensate polluters, individuals and families would be financially better off.

The introduction of a simple carbon tax of \$25 a tonne has the potential to raise \$13 billion in new revenue and improve the financial position of an average family by more than \$1,000 a year. The \$13 billion in revenue should not be seen as a cost that is taken out of the economy but as a redistribution of \$13 billion from polluters and towards other groups in society that are deemed to be more deserving of assistance.



The proceeds of a simple carbon tax would be sufficient to pay every adult a 'carbon dividend' of \$700 a year; for a family of four the dividend could rise to \$2,100 a year. Such payments are far greater than the likely increase in the cost of electricity and other products, which is estimated by the Commonwealth Treasury to be around \$18.50 a week for an average family.

The main principle that should underpin Australia's response to climate change is that good emission-reduction policy raises revenue for governments and that bad policy costs money.

Other options for how the revenue from a carbon tax could be spent include reducing the Goods and Services Tax (GST), lowering the company tax rate, investing in renewable energy and other low-carbon infrastructure or providing compensation to polluters. This range of options highlights the fact that a carbon tax is not a 'cost' to the economy but a means of both changing behaviour and redistributing money away from polluters and towards other uses.

While the science and politics of tackling climate change are likely to remain challenging, the economics of reducing greenhouse gas emissions is relatively straightforward. Introducing a carbon tax is both economically efficient and, if the compensation package is well designed, highly equitable. §



Institute out and about

- Richard Denniss spoke at the National Population Summit in the western-Sydney suburb of Casula in July. Former Opposition Leader Malcolm Turnbull participated and Prime Minister Gillard made an impromptu appearance, which guaranteed national press and helped push the issue of sustainable population growth into the mainstream political debate.
- The Institute joined with a number of Canberra's environment groups to host a Vote Climate: Politics in the Pub evening during the federal election campaign. Lead ACT Senate candidates Kate Lundy (ALP) and Lin Hatfield Dodds (Greens) spoke, with Gary Humphries (Liberal) sending his apologies.
- Richard Denniss spoke at the ACT Walk against Warming event in August.

Politics in the Pub

The Australia Institute and Unions ACT will host Politics in the Pub on Wednesday 29 September, 5.30 pm for a 6 pm start.

Amanda Tattersall (author) and Simon Sheikh (GetUp) will discuss 'Where now for people power after the election?'

Charles Firth will MC.

Amanda will also launch her new book, *Power in Coalition: strategies for strong unions and social change*.

The event is free and will be held in The Lounge Bar, Level 3, @ The Uni Pub, 17 London Circuit.

Institute in the news

- Research Fellow David Richardson was interviewed by *Today Tonight* for a program on bank profits.
- Richard Denniss was part of a panel discussing the federal election on *ABC 24*.
- Check out a number of opinion pieces by Institute researchers on the new Climate Spectator website, <http://www.climatespectator.com.au/>.

New publications

- D Baker, *Missing out: Unclaimed government assistance and concession benefits*, Policy Brief 14, May 2010.
- C Eren, R Denniss and D Richardson, *Green jobs: What are they and do we need them?*, Policy Brief 15, May 2010.
- R Denniss and D Richardson, *Why a carbon tax is good for the hip pocket*, Policy Brief 17, August 2010.
- J Fear, R Denniss and D Richardson, *Money and power: the case for better regulation in banking*, Institute Paper 4, August 2010.
- D Richardson and R Denniss, *The regional impact of public service job cuts*, Policy Brief 18, August 2010.
- R Denniss and D Richardson, *Once more with feeling: Principles for reducing greenhouse gas emissions and improving the wellbeing of most Australians*, Policy Brief 19, August 2010.
- D Ingles, *Running on empty? the peak oil debate*, Policy Brief 16, September 2010.

Opinion pieces

- D Richardson, 'Why we need a Resource Super Profits Tax', opinion piece, *Online Opinion*, 15 May 2010.
- D Baker, 'Missing out', opinion piece, *Online Opinion*, 8 June 2010.
- R Denniss, 'Banking on hasty growth', opinion piece, *The Age*, 22 July 2010.
- R Denniss, 'For the love of profits: Australia's skills shortage', opinion piece, *ABC The Drum Unleashed*, 9 February 2010.
- R Denniss, 'For true democracy, rules of the game must change', opinion piece, *Canberra Times*, 10 August 2010.
- R Denniss, 'We don't need stronger banks, we need stronger regulation', opinion piece, *Crikey*, 17 August 2010.
- J Fear, 'Money and power', opinion piece, *Online Opinion*, 18 August 2010.
- R Denniss, 'Major parties pay the price for lack of courage on big issues', opinion piece, *The Age*, 24 August 2010.
- R Denniss, 'ACT leads carbon cuts charge', opinion piece, *The Canberra Times*, 30 August 2010.
- D Ingles, 'The dirty topic of peak oil: Get ready to reduce your reliance', opinion piece, *Crikey*, 2 September 2010.

Challenge Grant

At the end of May 2009, The Australia Institute launched an appeal to members to assist with meeting the terms of the Challenge Grant thrown down by one of its principal supporters. He promised a donation of \$50,000 if the Institute was able to raise \$50,000 from other sources.

The Institute was extremely gratified by the response. Our members rose magnificently to the challenge and by the end of September, we had achieved slightly over \$50,000 in donations and grants.

The Institute was so encouraged by the result that we have found sponsors who are willing to assist us with another Challenge Grant this year. Accordingly, you will find a letter enclosed with this newsletter, which will include information about the new initiative. A response similar to last year's would be excellent.

Many thanks to all those who participated so generously last year and we look forward to another success story in 2010.