

More Than Luck

IDEAS AUSTRALIA NEEDS NOW

Edited by Mark Davis & Miriam Lyons



“Both of Australia’s major political parties seemingly lost sight of principle and philosophy in the 2010 election campaign. It was shameful how much time was devoted to trivia and pork-barrelling while climate change, sustainability and the long-term reform of the health and education systems were relegated to the footnotes. The hysteria surrounding the question of boat-people, and the silence about climate change demonstrated how out of touch Australia is with the rest of the world.

Geographically we are an island, but in geo-politics we are not an island, we are part of the main. The election campaign and the outcome suggested a nation out of touch with reality. From climate change and sustainability to proper governance and strengthening of democracy, the ideas in *More Than Luck* come at the right time. We need politicians to take them seriously. If we cannot think bigger than tweets, we are in trouble. If our politicians won’t think bigger than sound-bites, we are lost.”

– JULIAN BURNSIDE, QC.

“This is a timely call for new thinking in a country accustomed to getting by on luck, and in spite of its leadership. The authors of *More Than Luck* have made an earnest and constructive attempt to grapple with the unthinkability of an ‘official future’ that seems to assume that current consumption can be sustained and that current production can be rescued. *More Than Luck* is a clarion call to prevent such folly while there’s still time.”

– GUY PEARSE, AUTHOR OF *HIGH & DRY* AND *QUARRY VISION*,
RESEARCH FELLOW - GLOBAL CHANGE INSTITUTE,
UNIVERSITY OF QUEENSLAND.



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First published in 2010
Centre for Policy Development. Some rights reserved.
PO Box K3, Haymarket
Sydney, New South Wales, 1240

ISBN: 978-0-9808356-0-1

Cover design by Kevin Bathman
Set in Trade Gothic & Ingleby by Liza Manshoor,
<http://eclecticdsgn.com>
Printed and bound in Australia by Griffin Press

To comment on this book and for full references please see
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INTRODUCTION

“Politics, like nature,
abhors a vacuum.
Fear dominates
elections when there
isn't a positive vision
compelling enough
to crowd it out.”

Introduction

By Mark Davis & Miriam Lyons

WHAT USE IS POLITICS? It's a question many Australians began to ask in the lead-up to the 2010 election as the Rudd and then the Gillard Government ditched what seemed like a policy a day in a bid to lighten their electoral baggage. The home insulation scheme; increased childcare places; the Carbon Pollution Reduction Scheme; the besieged mining tax; a humane approach to asylum seekers: all went out the door or were heavily scaled back. It was as if the government stood for nought except getting re-elected. What was the point, many wondered, of all the grassroots work, of all the sweat that it took to get rid of the Howard Government, when its replacement was so unwilling to stand up for the people and the issues that put it there?

Predictably Labor cried foul, citing lack of support for its schemes from an obstructive opposition and, in the case of the Carbon Pollution Reduction Scheme, the Greens. But it didn't help the government's credibility that this showpiece scheme, their response to what Rudd had called the "political and moral challenge of our times", was weak in the first place. With their proposed handouts to the energy industry, the government stood accused of pandering to vested interests. The scheme was so similar to that offered by the previous government that it seemed that no matter who you voted for, the same sectional groups would retain their hold on power.

Some say we get the governments we deserve, and to an extent this is true. When we stop paying attention to politics, we make it easier for politicians to stop paying attention to us. If we vote for the political equivalent of the crazy warehouse guy ("All the services you want at half the price!! Why pay more?"), we shouldn't be surprised when we get policies built to fall apart as soon as the press conference is over.

Yet it is also true that governments get the citizens they deserve. If you treat elections as a marketing campaign instead of a genuine contest of ideas, then you should expect people to shop around for the best deal they can get for themselves. Both sides of politics were happy to abandon their values and fight on their opponent's territory this year – with Labor attacking the Coalition's parental leave policy as "a big new tax" and the Coalition arguing that Labor's refugee policy is cruel to boat people because it fails to treat them badly enough to discourage them from coming.

In this context it's understandable that the timing of the election debate was shifted to avoid clashing with the finale of *Masterchef*. It was much easier to get a clear picture of Callum and Adam's different philosophies on cuisine than

of Gillard and Abbott's philosophies on Australia's future. In a choice between two stage-managed contests, why would you choose to watch a battle in which the shrapnel from small bullets ricochets off even smaller targets?

There are significant differences in what the major parties have done in the past, and in what they would *like* to do now, but the scope for difference on what they actually plan to achieve has been very limited. Gillard is drawn reluctantly, Abbott gleefully, towards the politics of fear and exclusion. The Coalition would prefer not to act at all on climate change, while Labor vacillates, wanting to do what's needed – but only if it comes at no political cost.

Politics, like nature, abhors a vacuum. Fear dominates elections when there isn't a positive vision compelling enough to crowd it out, and neither major party told a positive story this election year.

A stasis has settled over government and opposition in Australia. The final election result – a hung parliament and an agonising wait for an outcome – signified a political system that is being dragged down by its own entrenched cultures. One in which voters registered their disgust by voting informal in record numbers. In this context it's not enough for different players to win the game of Australian politics: we need to change the game itself. Governments in Australia have traditionally fought hard for their showpiece policies. After World War II Menzies fought to repair relations with Japan to underwrite Australia's export future. Whitlam fought for tariff cuts and Medicare. Fraser fought for acceptance for Vietnamese boat people. Hawke fought for the Accord and for floating the dollar. Howard fought for gun control and the GST. All of them staked their political futures on big gambles; things they believed in so strongly that they would rather not be in power than fail to achieve it. In the new Gillard government, we have no such vision, no such beliefs.

Is Prime Minister Gillard's focus on consensus-building an attempt at Hawke-style leadership that will work to bring as broad a group of Australians as possible on board for reforms of unprecedented ambition? Or just an excuse not to lead at all?

Gillard is right to recognise that leadership is not just about giving orders – but it's not about giving people exactly what they want either. You can never give voters enough of what they don't really need to make them happy. Real leadership involves helping people face up to hard decisions that they'd probably rather avoid, and inspiring them to see the opportunities that open up

when we're willing to make shared sacrifices to solve shared problems.

But the present stasis isn't simply the fault of the people at the top of the political food chain. The current Labor government is a symptom of a broader political system that no longer seems to know or care what issues are important, even crucial, let alone how to begin to address them. It's not only the major parties but the entire political system that is bogged down in its own cultures.

How are we to move the game on when so much mainstream political commentary is stuck in the one, dated idiom? The blog *The Piping Shrike* had an excellent post on the media response to the Labor government's ditching of the emissions trading scheme. The mainstream media, it noted, endlessly cited Lowy Institute polling that showed that public support for action on climate change, even if it involves significant cost, had fallen from 68 per cent in 2006 to 48 per cent of the population in 2010. But the media only cited the data that suited it. In fact the same polling also showed that 87 per cent supported action at some cost, down a mere six points from 93 per cent in 2006. Sixty per cent believe climate change has become a more urgent issue over the past year. Is it perhaps, *The Piping Shrike* speculated, that the media is caught up in the logic of old politics which necessitates a straightforward political and popularity contest and an electorate driven by the hip-pocket, and is unable to canvas a more complex narrative?

It often seems as if our major parties don't trust voters to look beyond narrow self-interest – even when research and opinion polls tell them otherwise. When Australians are asked whether they would prefer tax cuts or more spending on health and education, the answer is clear: invest in services. And yet both major parties promised tax cuts at the 2007 election, Rudd's leadership fell partly because of one attempted tax increase, and in 2010 Labor enthusiastically attacked Abbott for the economic irresponsibility of the tax he wanted to pay for a parental leave scheme more generous than they were willing to offer themselves.

Rather than focus on what politicians can do to improve people's lives, the media focuses on personalities. Politics is usually reported as if it were a horse race. Journalism lives for the leadership contest and little else. It might sell papers, but it doesn't fix broken planets, brittle economies or entrenched disadvantage. The political demands of a 24 hour news cycle, where issues rarely get more than three days sustained coverage, combines with opinion polls which rarely delve into voters' deeper or longer-term aspirations. The result is that the political

world is locked between two mirrors – whichever direction it looks in, it sees infinite images of itself reflected back with less and less clarity. One of the most telling things about the 2010 election and the emergence of independents and Greens as a political force, was the way in which some commentators fell into a near-panic as the result of the cosy two-party system being disrupted.

Others play out a tired, dated war with 'the left'. In an echo of the 1990s 'culture wars', to them even global warming is some kind of left-wing conspiracy. The direct political power of such commentators is often overestimated. But they have changed perceptions about the political middle ground such that the fears and grudges of an ageing demographic have come to be understood as the mainstream. For so long as politicians pander to such fears there can be no innovation.

Another obstacle to change is the Australian electoral system. Until this year the ALP could afford to be somewhat contemptuous of progressive ideas because it knew that when disaffected Labor voters support minor parties, the votes would flow back to them in preferences.

These sorts of invitations to 'politics-as-usual' are everywhere in Australian politics. Yet these are unusual times; times of environmental limits and approaching tipping points, of global economic instability; of looming energy and water shortages; of sclerotic, overloaded cities. Times that call for leaders able to rise above the mire of politics-as-usual, and to make innovative, bold decisions.

These exceptional times are especially dangerous for Australia. Almost 50 years ago in *The Lucky Country*, Donald Horne wrote that Australia was a second-rate country living on its luck. Primary industry had sustained for too long what was basically a weak economy and a weak leadership class. A decade into the most recent mining boom, the same is true today. We must consider whether we can continue to coast along, or make the changes needed to not only call ourselves a lucky country, but a country run by people who know how to make the luck last.

Instead, our leaders prefer to play dice with destiny. The Labor government talks about future generations more often than its predecessor, but the gap between rhetoric and reality reveals a lot of long bets. Judging by the policies

of the current federal government, it is betting that the mining boom will last forever; that we'll discover a cure for Dutch Disease that doesn't involve slowing the boom down; that cheap oil won't run out, or that an equally cheap alternative will be found before it does; that global inaction on climate change will continue; and that Australia will escape the consequences of that inaction if it does.

Business as usual won't cut it anymore. In areas like urban infrastructure, electricity generation, or paid parental leave, Australia is pursuing policies designed for a world that no longer exists: a world of cheap oil, or endless credit, or single-income families, or a climate that will remain stable forever. In some areas of Australian public policy, like our love affair with suburban freeways, or our workplaces' attitudes to child-bearing, we have barely changed in generations.

Revolutions start when enough people get disgusted with the same thing. And enough people in Australia are now frustrated enough to want to start something new. The disgust that welled up in the Howard years has for many people returned, but with greater urgency given that on crucial issues such as global warming time is much shorter now. Rudd once complained of the ten years wasted by the Howard Government's inaction on global warming. The Labor Government has already added another three years to that tally. 2013 is too long to wait for a price on carbon. We must hope that the new climate change committee can bring that date forward.

It's not enough to point fingers and complain and say 'no' to what we don't like. Revolutions in thinking don't start that way. We also need to map a viable path to the future we want.

To begin to map out a new political agenda for Australia requires at least two things. First, we need a conceptual framework in which to think through what is new about the world we live in and what that means. Second, we need to identify and strategise our way around obstacles to change.

One such obstacle is the vested interests that have stalled progress in so many important areas. Machiavelli recognised the problem 500 years ago, when he wrote:

“There is nothing more difficult to take in hand, more perilous to conduct, or more uncertain in its success, than to take the lead in the introduction of a new

Introduction

order of things. For the reformer has enemies in all those who profit by the old order, and only lukewarm defenders in all those who would profit by the new."

In Australia vested interests include corporations as well as the industry associations and lobby firms whose job it is to defend those who want to avoid paying the full costs of their activities. Tasmania tells an important story here. Before the 2010 Tasmanian election there was almost as much concern about the distortion of the political process by powerful interests as there was about the hotly contested Gunns pulp mill itself. Essential Research found that almost half of Tasmanian voters thought that it didn't matter which party they voted for, 'because the major parties are both too weak to take on the interests of big business'. This perception probably played a major role in the decision of many Tasmanians who would not otherwise identify as 'green' to put the Greens in a position to decide who would hold government.

Often, vested interests have champions in the media: influential newspaper columnists who see their role as speaking up for 'realistic' policy – where realistic is defined as what entrenched interests will accept.

To tackle vested interests and deal with some of the problems covered within this book, we need to redefine realism – an action that is both necessary and physically achievable should be seen as a realistic action. Political reality must be reconnected with social and environmental reality. Australians who want real change can't afford to just cross our fingers for the outcomes of the next review, the rediscovery of recommendations from the last review, an emergency spine transplant after the election, or the positive influence of a more progressive senate.

If we are to do more than merely rely on luck, we need a viable, hopeful narrative about the future. To build such a narrative requires that we be idealists first and pragmatists second – there is no point being pragmatic unless you know what you are being pragmatic about. As many of the old standards of modern life lose their viability – the established print media, abundant fossil fuels, unconstrained economic growth, the availability of an endless environmental sink for pollution from the 'externalities' of industrial production – so we need to rethink our conceptual maps and write the story of our new political and economic future.

The single issue with the most potential for transforming the politics we have into the politics we need is also the issue that comes up most often throughout

this book: global warming. It's difficult to be anything other than deeply alarmed about the incapacity of modern politics to deal with climate change – but by highlighting the deep problems in our tools for tackling complex global problems, this issue is also planting the seeds of change. After a decade of inaction by its predecessor, when the Rudd government finally began to canvass the problem it found Australia almost irrevocably committed to an economy based on fossil fuels. Our cities were designed around car travel, while our homes relied on coal to turn on the lights or the shower. Our Governments were just as hopelessly addicted – to the jobs and tax revenues provided by mining and energy companies, and afraid of their lobbying power. If Australia had been allotted a sustainable CO₂ emissions quota for the 21st century, we would have used up almost a third of it by the end of 2005. Yet as Fiona Armstrong writes, addressing global warming will have major economic and social benefits. To achieve change she recommends simple, practical measures that use currently available technology and that will take little more than political will.

Unlike the goldfish in government, most citizens can see beyond the election cycle to dream of what life will be like for our friends, our families, and ourselves in 50 years time. When we think of the state of our planet and our continent, some of those dreams take on a nightmarish quality. We pulp our mightiest trees for paper and drain our precious aquifers to grow water-guzzling crops for export. In the bush our rivers turn into gutters, our fields turn white with salt and our soil blows away on the wind. In the cities we lose hours each day to slow, maddening commutes through gritty smog, and shop at supermarkets where the tomatoes bounce and the carrots taste like cardboard.

People are starting to cry 'enough'. We want a future that is bright, healthy and green. We want meaningful action to combat climate change and sustainably manage our water, forests and marine habitats. We want Australian farming to reflect the unique nature of our fragile continent. We want our kids and grandkids to grow up in a country richer in 'nature's gifts' than the one we inherited from our parents – with better soil, bigger forests, healthier rivers and a safer climate. We want Australia to play a strong role in building international momentum for evidence-based action on climate change. We want the way we live from month to month to be sustainable from decade to decade. And we won't accept anything less than clear, consistent, principled leadership to help us achieve that future.

We now need to build the politics that makes such change possible.

An abiding theme for any hopeful narrative about the future will be the growing interconnectedness of everything. As our car-dependent lifestyles make us fatter and sicker, so urban planning and health policy converge. Given our reliance on centralised supplies of energy and water, so infrastructure policy is also national security policy. In an information- and knowledge-based economy, education policy drives long-term economic development. Whether Indigenous policy succeeds or fails depends on the effectiveness of policies that span several departments and levels of government. This means that we need to stop thinking in terms of false trade-offs between economic, social, and environmental goals. We must instead start judging the performance of governments by whether the overall policy mix is making a lasting contribution to Australia's wellbeing.

Solving this century's problems will require the ability to think in systems. Governments are currently struggling to deal with the increasing complexity of the systems they are trying to manage. This is partly due to a political culture that confuses leadership with top-down approaches to problem-solving – a confusion shared by people in senior positions of all stripes and ideologies. Management in much of the public sector is still surprisingly hierarchical and centralised, and complex problems are still examined like Swiss clocks – broken down to the sum of their parts, which are then each individually understood and managed.

Our solutions, then, need to be holistic. The stories we need to tell about the future need to be inclusive; our ideas for policy need to reach across disciplinary, portfolio, and national boundaries.

In this book you will find many such ideas. Jennifer Doggett shows how to reorient the health system around the people who use it, making health funding fairer and more effective in the process, while Marcus Westbury and Ben Eltham look at how to make cultural policy reflect the needs of today's culture-makers. Chris Bonnor looks at viable ways out of a situation in which the lottery of birth determines who succeeds and who struggles in Australian schools. Kate Gauthier explains how Labor set itself up for failure on the refugee debate, and describes what it would take to turn that debate around. In an era in which both major parties are pinching their pennies, Ben Spies-Butcher and Adam Stebbing show the big savings to be found by ditching or reforming some of our least transparent, most unfair, and least effective forms of spending. Ian Dunlop and Ian McAuley show how vulnerable the 'quarry economy' is, especially with peak oil and climate change around the

corner, while Fiona Armstrong shows how we can shift 'from fear to hope' by making the most of Australia's green economic opportunities.

But where will the political will come from to support these and the many other important ideas in this book?

After the 2007 federal election GetUp! consulted its members on their vision for the new Labor government. The consultations began with a series of Get Togethers in people's houses – thousands took part in over 300 meetings where they discussed everything from climate change to civic education. People at these meetings sent their ideas and ambitions in to GetUp! central, which compiled the results and sent them out to members to prioritise. Their responses – over 30,000 of them – became The People's Agenda for Parliament, a ten-point wish list for the Labor Government. Since then GetUp! and other organisations that seek to harness people power have moved to the forefront of politics. If politics comes down to a battle over who can spend more money or manage the media more effectively, we all lose. But people with less money and media in their pockets can still win policy victories when they have the numbers on their side.

As much of the 'old' media becomes ever more predictable in its thinking, more entrenched in horse race political reporting and more than ever part of the process, intent on playing out faux culture wars between an all-powerful phantom left and 'ordinary people' on real threats such as global warming and imaginary threats from asylum seekers, so new thinking is coming in not only from the fringes, but from the mainstream – the streets, the suburbs, from schools, from universities, from kitchen tables – that the new conservatism has tried to pretend is its own.

That there is broad support for new ways of thinking is shown by recent polling.

Against the old 'greens vs jobs' divide that continues to guide so much political rhetoric, in the lead up to the 2007 election the mining division of the CFMEU consulted its members on climate policy and received unanimous support for signing the Kyoto Protocol. At the time the National Secretary Tony Maher said "Our members are sick of being demonised and seen only as part of the problem."

As Phil Lynch points out in *Human rights at the cross-roads*, an independent poll commissioned by the National Human Rights Consultation showed that 75 per

cent of people believe we need stronger measures to protect the human rights of people with mental illness, the elderly, Aboriginal Australians and people with disability. In *Strengthening our Democracy* Marian Sawer, Kathy MacDermott and Norm Kelly note that according to the 2007 Australian Election Study 69 per cent of voters believe that big businesses – the kind of organisations that make the most substantial donations to political parties – have too much power. In fact, as recent analysis of Australian Election Study data by Murray Goot and Ian Watson shows, much recent mythology about why Australians vote as they do simply doesn't stack up.

Instead of letting ourselves be played off against each other by politicians seeking electoral advantage with divide-and-rule tactics, we need to rediscover the things we believe in common and relearn how to trust each other. In learning how to challenge old ways of doing things, and to cooperate more effectively, we learn to make full use of our power as citizens. As the rest of this book shows, there's no shortage of opportunities to wield that power once we get the hang of it.

When politics is broken we have the tools to change almost everything about our own lives, but nothing about the world around us. We are empowered as consumers yet disenfranchised as citizens. It's time to take citizenship back.

This book is deliberately optimistic, despite the clear obstacles to progress. It's what *Worldchanging.com* editor Alex Steffen has described as "a fighting optimism":

"We can freely acknowledge the tremendous struggle ahead of us, and yet choose to remain decidedly optimistic, and to work from a fundamental belief in the possibilities of the future. When we do that, we liberate ourselves from some of the burden of despair and powerlessness we've all been saddled with at the dawn of the 21st Century."

New thinking and leadership always starts small. In this book you will find one strand in a wider global stirring of progressive sentiment. There are small ideas and big ideas, all of which seek to add to new narratives about the future that many people now feel are necessary given the failures of the recent past. All share a commitment to the same core principles: that in order to move forward as a nation we need to share this country's luck more fairly and learn how to make it last.

Find full endnotes and comment online at: <http://morethanluck.cpd.org.au>

SHARING THE LUCK

“Trying to get our current health system to provide longer-term and more complex care is like using a typewriter to twitter.”

Getting health policy into shape

By Jennifer Doggett

INTRODUCTION

In 2007, the Labor Government inherited a health system long overdue for reform. Australians are living longer than we did a generation ago, partly due to medical advances such as the ability to identify and treat early-stage heart disease. However, while we've been winning the battle against many acute, short term illnesses, many chronic conditions such as diabetes, have been on the rise. These conditions require longer-term and more complex care, often involving multiple health care providers. Trying to get our current health system to provide this type of care is like using a typewriter to twitter.

This chapter provides an overview of the state of Australian health policy, its challenges, and recommendations for specific health reforms.

THE STORY SO FAR

Australia's health system was designed for another era and another generation of Australians. In fact, neither of the two major federal health programs – Medicare and the Pharmaceutical Benefits Scheme (PBS) – have changed significantly since they were set up (in the 1940s for the PBS and the early 1980s for Medicare). Along with the need to update these programs, there are other drivers for reform, such as the historical unfairness of a system in which some groups with the poorest health status have struggled to receive the care they need. These groups include people with chronic conditions, those living in rural and remote communities and Indigenous Australians. The need to change Australia's inflexible and archaic health workforce practices has also added to the pressure for reform.

Many attempts to solve these problems have been held back by structural barriers to change, such as the historical division in funding and service delivery responsibilities between the Commonwealth and State/Territory governments. This split, which makes little policy or financial sense, has led to gaps, duplications and cost-shifting across different levels of government. Confusing governance arrangements have also reduced transparency and accountability in all areas of health care. These barriers have greatly hindered our health system from adapting to meet our changing health care needs.

Fast facts: Where does health funding come from in Australia?

• Federal Government	43%
• State/Territory governments	25%
• Direct consumer payments	17%
• Private health insurance	7%

Source: Australian Institute of Health and Welfare Australia's Health 2008

THE REFORM AGENDA

In 2007, the Labor Government was elected on a platform of health reform and made a pre-election commitment to address the structural problems within the health system. Soon after taking office, the Government instigated a number of inquiries and commissions into all areas of the health system, including an overarching National Health and Hospitals Reform Commission (NHHRC). A dizzying array of reports and strategies was produced via these processes, which recommended major changes to the funding and delivery of health care in Australia.

The Government has responded to these recommendations and announced a reform agenda to fundamentally change the way health care is funded and delivered in Australia.

The positives

Overall, there are many positives in the Government's reform agenda.

These include:

- An increased focus on prevention – aiming to reduce the rates of chronic disease and promote healthy ageing in the community.
- A re-orientation of the health system around primary care – aiming to reduce overall health care costs and increase equity within the health system.
- Setting national performance standards – aiming to drive quality improvements and empower consumers to make more informed health care choices.

- Rejecting Denticare and Medicare Select – NHHRC proposals which would have increased costs without delivering consumer benefits.
- Changing governance structures – aiming to provide greater transparency and accountability and increase community confidence in the health system.

The gaps

However, there remain a number of gaps in the Government's approach to reform which, unless addressed, will undermine the overall effectiveness of the proposed changes. These include:

- The lack of an underlying philosophy or set of principles – over the past few years of inquiries and public hearings, the community was not consulted about the principles that should guide our health system. This makes it difficult to assess whether or not the reforms reflect community values and expectations.
- Continuing confusion over governance issues – there are still no clear lines of accountability between federal and state/territory governments, Cabinet, ministers, boards, officials and clinicians.
- The improvements in transparency are only partial – a missed opportunity to use new technologies (Web 2.0) to drive community engagement, accountability and a focus on outcomes rather than inputs.
- No single pool of funding for health care – against the advice of almost every health economist, the funding silos remain.
- No systematic approach to consumer payments – while the reforms make major changes to the ways in which governments fund health care, they do not address the problems inherent in our current approach to direct consumer payments.
- Failure to address the problems with dental, Indigenous and mental health care – these three key areas, currently failing the community, have been largely ignored by the reforms.
- Continuing to support anti-competitive practices and pandering to special interest groups – medical professional and pharmacy groups,

the pharmaceutical and private health insurance industries, and state bureaucracies, continue to receive unwarranted subsidies and special consideration, contrary to community interests.

- Maintaining current workforce boundaries – the reforms do not address the archaic workforce structure and rigid professional boundaries of our current health workforce.
- Failing to transform Medicare into an active purchaser of health services which delivers greater benefits to consumers.
- Ongoing funding for the Private Health Insurance (PHI) rebate – a \$4.5 billion black hole in the health budget which has been left alone by the reforms.

Of course, well-designed reforms are only part of the story – implementation is just as important, as became clear during the previous Rudd term of government. The barriers to successful implementation were strong, due to an unfavourable Senate (relevant for some measures which require legislative change), a Federal Health Department with a poor record of driving health system reform and ongoing pressure to back down on some measures from interest groups with a vested interest in maintaining the status quo. The newly-elected Gillard government must identify entrenched cultures and recognise the need for change management processes throughout the health system if it is to surmount these challenges.

MYTHBUSTER: Australia's health system is fairer than most? Not for some

A 2008 Commonwealth Fund survey of chronically ill adults in Australia, Canada, France, Germany, the Netherlands, New Zealand, the United Kingdom, and the United States found that over a third (36 per cent) of Australians with chronic conditions reported problems with accessing health care due to cost. This was higher than participants from any other country, apart from the US.

Source: C. Schoen et al, In Chronic Condition: Experiences of Patients with Complex Health Care Needs, in Eight Countries, 2008, *Health Affairs* Nov 2008

POLICY IDEAS

IDEA #1 – Health credit cards and a single safety-net

a) Addressing consumer payments

Consumer payments are a major gap in the government's health reforms. The reforms fail to deal with direct consumer payments for health care, despite the fact that these payments make up the third largest source of health funding in Australia and influence both how consumers access health care and which goods and services they access. The current ad hoc system of co-payments is inefficient, unfair and often does not reflect the actual cost of health care to the community.

There is strong evidence that consumer payments are causing financial hardship among some groups of consumers and restricting their access to cost-effective forms of health care. The safety-nets put in place to address these inequities are themselves complex and difficult for consumers to understand. They often do not target those most in need and also create perverse incentives to use less efficient forms of care. For example, someone with a sports injury may pay more for a course of physiotherapy treatment than they will for anti-inflammatory and pain relief medication – even when the physiotherapy treatment is more cost-effective.

A better approach to consumer payments for health services would be to give all consumers a 'health credit card' to pay for health care without upfront payments.

A single health safety-net should also be created to cover medical, dental, pharmaceutical and allied health care and target consumers who have difficulty affording health care. These two strategies would significantly improve both the fairness and efficiency of our health system.

b) How it works

The Federal Government issues all consumers with a health credit card to pay for all health goods and services with no cash upfront. The Government assumes responsibility for paying providers the full amount of their fees for all health goods and services paid for by the health credit card. The Government deducts any applicable subsidies (e.g. Medicare rebates) and sends the consumer a consolidated bill for the outstanding gap amounts.

Consumers have the option of making one payment for the total amount of all consolidated out-of-pocket costs for the given period or paying in instalments (similar to credit card payments) with minimal or no interest. Consumers are required to make a minimum monthly payment but the amount of this payment would be indexed to consumers' ability to pay, and would be capped at a pre-determined level (for example ten per cent of after-tax income per annum), so that no consumers would face financial hardship due to their health and medical bills. This would ensure that no consumer faces financial barriers to accessing health care and would create efficiencies by shifting complex isolated administrative processes from consumers and providers to a more streamlined process undertaken centrally by a government agency.

How it works: example

Lucy injures her leg skiing and requires treatment from a number of private health care providers, including a GP, specialist physician, exercise physiologist and osteopath. In addition to this, she requires prescription pain relief medication, has a number of x-rays and uses an ambulance service. The total cost of her care for the accident is over \$3,000. She pays for all these goods and services with her health credit card with no up-front payment. This means that she can access the care she needs immediately, despite not having sufficient funds available. At the end of the month she receives a consolidated bill for the total out-of-pocket costs for her treatment of \$600. As Lucy is a student on a low income she is able to pay off this debt in low monthly instalments of \$80.

MYTHBUSTER: Medicare means that we pay for less of our health care than people in other countries, right?

Actually, Australians contribute more to their own health care expenses than do citizens of many other countries, including the UK, Japan, Germany, France and the Netherlands. Even Americans, though they pay more overall than Australians for their health care, contribute only 13 per cent of their total health funding through direct payments (compared with over 17 per cent for Australians).

Source: Organisation for Economic Cooperation and Development Health Data 2008 OECD 2008

IDEA #2 – Regional health authorities and citizens' juries

a) Addressing the distribution of resources

Australia's current health funding system distributes resources primarily based on the location of providers rather than the needs of communities. This has resulted in an unequal allocation of Medicare and PBS funds, Medicare Safety Net funds, and the take-up of public subsidies for private health insurance across the population.

The allocation of resources differs markedly according to geographic location and often the people who need health care the most receive the least. People in large capital cities receive 23 per cent more combined Medicare and PBS funding than those in rural or remote areas, despite the fact that they are healthier.

Fast facts: Where is health spending most needed?

	Major cities	Regional (outer)	Remote	Very remote
Life expectancy at birth (males)	79	77	77	72
Life expectancy at birth (females)	84	83	82	78

Source: Australia's Health 2008 AIHW

Redistributing funds to regions based on need would address the current imbalance by targeting resources to the areas that are currently most neglected. The Labor reforms provide some scope for the regionalisation of health services through the establishment of Medicare Locals (MLs), regional primary care organisations which will be responsible for some population health functions.

Citizens' juries are a form of participatory democracy which involves selecting a random sample of the relevant population and asking them to deliberate, as citizens, on issues such as how health resources should be allocated. The process involves giving them good information on the issues for debate; encouraging them to question experts to clarify that information or seek more information; and then giving them time to reflect and to make recommendations on the best use of health resources.

Using citizens' juries to influence priorities for funding in each region would enhance consumer and citizen input into the health system and increase accountability for health funding.

b) How it works

Medicare Locals would be given a set budget for providing all health care in their regions. Budgets would come from a national pool of funds created by combining all current health funding, from federal, state/territory and local government sources. This would be distributed equitably by a new national agency on the basis of evidence about health care needs. Publicly available information on local health needs and health spending (regularly collected and updated in accordance with national standards) would inform decisions by Medicare Locals about the appropriate allocation of services and resources in that region.

However, under the federal government's current reform agenda, Medicare Locals will provide only primary care services and have a very limited budget-holding role in areas such as after-hours care. They will take on responsibility for services such as health promotion and some chronic care packages but the majority of primary care will continue to be funded via MBS/PBS budgets. This means that Medicare Locals will not have the capacity to address the structural unfairness of the way we allocate health resources.

By strengthening Medicare Locals, giving them total responsibility for the health care needs of a defined population, they would have a genuine opportunity to address the geographical inequities in our current health funding system. This would also improve clinical co-ordination, data collection, health service planning, and the accountability and efficiency of health resource allocation. Each Medicare Local would be required to establish a citizens' jury to provide advice on the community's priorities for resources allocation within the region and its underlying values for the delivery of health care. Citizens' juries would not have a decision-making function or replace elected and appointed officials in Medicare Locals. However, they would provide these officials with information about the principles that the citizens believe should underpin their health services and on important issues such as resource allocation and competing priorities.

How it works: example

A Medicare Local is established in the Mallee region in North West Victoria. It is allocated a budget with which it needs to provide health care for its citizens. In order to determine principles for the provision of health care and priorities for funding, a Citizens' Jury is established comprising 15 community members with a mix of age, gender, socio-economic status and ethnicity. The jury meets several times and is given information by local services and experts about the health status of the community, the cost of different forms of health care and the potential for health gains. The Jury determines values and principles for the allocation of health care resources which include fairness, efficiency and transparency. In terms of funding priorities, the Jury advises that a greater emphasis be placed on prevention, including addressing the social determinants of health. This advice is provided to the Medicare Local which undertakes to report back to the Jury on how its views have been reflected in its approach to health service provision. The Medicare Local then develops a plan for meeting the health care needs of the region in the context of the community's values and priorities. This includes reallocating funds from current acute care programs to Indigenous health, mental health and health promotion services.

IDEA #3 – Consumer controlled health budgets for people with chronic conditions

a) Problem: poor chronic disease management

One of the major challenges facing the Australian health system is to effectively manage the care of people with chronic illnesses. Caring for someone with a chronic condition requires a higher level of coordination and management compared with the care required for an acute health problem.

Chronic illnesses persist over time and often require care involving a mix of services and providers including, often, non-medical forms of care such as home-help, performed by non-professionals or family. The treatment and support options for people with chronic conditions are not always straightforward and may vary considerably depending upon individual preferences and circumstances.

Our major health programs, such as Medicare, have been developed for a community with predominantly acute care needs. They tend to be administratively complex and inflexible and are not well designed to meet the complex and varying needs of people with chronic illnesses. A traditional

government program structure cannot operate without being able to define the range of services relevant for each condition in advance and to anticipate the varying needs of consumers with chronic conditions. The result is that people with complex care needs often end up making choices dictated by what fits the system rather than what is best suited to them. The system puts consumers in a passive and disempowering position, contributing to a poorer quality of life.

Consumers can be given greater flexibility and control over their care by giving consumers (or their carers) greater control over their care budgets. It would also help them become more engaged in their care and to obtain more individualised services which better meet their needs, providing incentives for the efficient use of health resources and the development of innovative strategies.

b) How it works

People with chronic illnesses whose needs are not being met by current services would be able to apply for a *consumer-controlled health budget*. When a budget is allocated, based on current cost of services, a plan would be developed by the consumer, together with a care coordinator (for instance, a GP or a social worker). This plan would detail options for allocating the budget, care goals and outcomes. The consumer (or carer) would then be able to allocate the resources as they wish, within guidelines, as long as they contribute towards meeting the goals set. The goals and outcomes would be regularly reviewed by the care coordinator, in conjunction with the consumer (and carer). Clearly, it would also be important to ensure that consumers (and/or their carers) were willing and able to take on the additional tasks and responsibilities required to manage their own budgets. For some consumers the potential benefits may not outweigh the effort involved in taking on this role and they should be entitled to receive high quality care managed in the current manner. It is also important to recognise and put into place mechanisms to avoid the potential for exploitation of consumers, in particular those who may be more vulnerable due to issues such as cognitive impairment, by carers, family members or service providers who may seek to benefit personally from greater control over a health budget at the expense of the consumer.

How it works: example

Paul and Felicity have a six year-old son with developmental delay and challenging behaviours. They are entitled to respite care for six hours a week however have had problems finding a regular carer from the

government's approved list. Their preferred carer is Felicity's mother, however, she lives interstate. Currently they cannot use their respite care budget to pay Felicity's mother's travel costs. However, with a consumer-controlled health budget, Paul and Felicity can spend their budget for respite care on a monthly airfare for her to come and look after their son one weekend a month while they go away.

QUICK WINS: Three fixes in three minutes

Combining pragmatic politics and progressive policies

If major health system reform is all too hard, here are three practical solutions to long-standing problems with our health system which successive governments have failed to address. They can all be implemented without major structural changes and with minimal political risk.

Quick win #1 – Deal with the doctor dilemma

THE PROBLEM: Too many doctors in some areas and not enough in others. For example, there are an estimated 335 doctors per 100,000 population in major cities and 148 in outer regional areas.

One reason for this is that the Government restricts the overall number of provider numbers (allowing doctors to provide Medicare-subsidised services) but is unable to control where doctors practice. This means doctors congregate in areas where they live, such as leafy green suburbs in major cities. This leaves many communities with a doctor shortage, in particular in rural, remote and outer-urban areas.

Governments have previously been reluctant to attach provider numbers to specific areas (which would greatly improve workforce planning) as the medical profession has argued that this would violate a clause in the Australian Constitution prohibiting civil conscription for doctors (and dentists). Other methods employed by governments to attract doctors to areas of need (such as bonuses for working in rural areas) are expensive and have only limited effectiveness.

THE POLITICS: The Government needs to juggle the needs of communities with doctor shortages with the political and public relations muscle of the Australian Medical Association (AMA) which vigorously opposes any restrictions on where doctors can practice.

THE SOLUTION: Rather than tying new provider numbers to areas of workforce shortage (thus effectively forcing doctors to work in specific areas), the Government could simply restrict new provider numbers in the small number of areas of over-supply. This is a less coercive measure than compelling doctors to practice in specific areas (doctors retain the freedom to practice wherever they like, except in areas of over-supply) and therefore less likely to be opposed by the AMA or interpreted as comprising civil conscription. The result would be a more equitable allocation of the medical workforce without the need for increasingly high subsidies for doctors to work in areas of need.

HOW IT WORKS: Have a condition attached prohibiting the doctor from working in areas of demonstrated over-supply. Many provider numbers (for example those allocated to overseas-trained doctors) already have conditions attached to them so this would simply be an extension of the current approach to managing medical workforce supply.

WINNERS: Communities currently under-supplied by doctors. This includes almost everywhere apart from affluent inner-city areas.

LOSERS: Newly qualifying doctors wishing to practice in areas of over-supply.

Quick win #2 – Re-hash the rebate

THE PROBLEM: A costly and inefficient rebate for private health insurance which costs more every year and delivers very little in terms of increased access to health care.

THE POLITICS: The rebate is generally agreed by health economists and stakeholders to be a public policy disaster. However, as much as many people resent being forced into taking out PHI, the rebate is seen as money in their pockets and removing it may cause a voter backlash.

THE SOLUTION: Give private health insurance subsidies directly to consumers to spend on their choice of health care.

HOW IT WORKS: The funds currently going into the PHI rebate – approximately \$4.5 billion per year – would be redistributed to low and middle-income households to spend on the health care of their choice. This would provide approximately \$600 a year for each household earning less than \$200,000 a year (this is based on 2007/08 figures from the Australian Bureau of Statistics

publication *Household Income and Income Distribution*, published in 2009). These funds could be used to pay directly for health care services and products such as medical, dental, allied health and hospital costs, medicines and medical devices. It may also be used to purchase private health insurance. The subsidy could be used to pay for part or all of the health care product or service purchased. Any funds not used in one year would be saved and added to the additional contributions the next year so households would be able to build up a health fund over time, if they wished to.

The funds could be accessed via the health credit card (as proposed above). Alternatively, they could be linked to the tax or social security system or Medicare/PBS cards.

How it works: example

With three small children, Beth and Evan have frequent health care expenses but because they are living on one income, they can't afford private health insurance premiums (even with the subsidies). Mostly, they struggle to even afford the gap payments for GP visits and medicines. Currently, they gain nothing from the PHI rebate but under this system would be able to use their subsidy to pay for the GP and essential medicines.

WINNERS: Consumers who would have greater choice in how they spend their health care subsidy.

LOSERS: 1) Private health funds would lose the current guaranteed subsidy (although if they are providing consumers with a useful service they might not lose members); 2) People on high incomes who currently receive the PHI rebate.

Quick win #3 – Reduce adverse reactions: a MedicinesWiki

THE PROBLEM: Adverse reactions to medicines are a common – and often avoidable – problem within our health system. Over ten per cent of general practice patients report experiencing an adverse drug event (ADE) in the past six months and overall it is estimated that more than 1.5 million Australians suffer an adverse event from medicines each year resulting in at least 400,000 visits to general practitioners and 140,000 hospital admissions.

Currently, we are not using the collective knowledge and experience of consumers to improve the safety and quality of medicine use in the community. Changing the way in which consumers can access and share information about their medicines would help improve the quality use of medicines and reduce the current high rate of ADEs.

With the trend towards consumers taking a greater role in managing their own health, it is important that they have the information, support and tools to use medicines safely and appropriately. This needs to involve consumers actively sharing information with others in a collaborative and interactive environment. There is also the potential for consumers to play a greater role in monitoring the performance of new medicines on the market through providing opportunities for them to report suspected ADEs and other side-effects. We need a new model of engaging consumers in promoting quality medicine use and reducing ADEs.

THE POLITICS: Both pharmacists and the pharmaceutical industry have previously resisted moves to provide consumers with more information about medicines.

THE SOLUTION: A MedicinesWiki would provide a single point of contact for consumers accessing information about their medicines and reporting ADEs. This would enable consumers to obtain information about their medicines and provide an interactive source of information from consumers on their experiences in taking the drug.

HOW IT WORKS: The Government would establish and host a MedicinesWiki and actively seek consumer contributions. The Wiki would contain information about medicines (similar to Consumer Medicine Information) as well as provide opportunities for consumers to contribute their experiences of medicines and to ask questions. Over time, the Wiki would become a source of information on medicines for consumers and for health professionals and regulatory bodies interested in identifying problems with medicine use.

WINNERS: Consumers, particularly those with chronic conditions.

LOSERS: None, although some pharmacists and doctors may see this as reducing their authority.

SO CRAZY IT JUST MIGHT WORK...

Prediction markets for health care

Choices about medical treatment can be some of the most important decisions we ever have to make. However, in our current model of health care, consumers typically get only one opinion on diagnosis and treatment options from their doctor. In some cases consumers may seek a second opinion but it is very rare for consumers to seek any additional views, partly because it is so time- and resource-intensive. Given evidence that there is considerable variation in clinical practices among doctors, this model has significant limitations. Where there is clinical variation, not all the experts can be right.

A better approach would give consumers facing potentially life-changing decisions access to the most comprehensive information possible. This is difficult within our current model of medical practice as relevant knowledge is spread among large numbers of people and consulting them individually is not practical.

One solution is prediction markets. Prediction markets provide one mechanism for cost-effectively capturing the knowledge held by a large number of individuals. They work as a betting exchange where people are able to bet on the outcome of a specific event. This creates incentives for individuals with knowledge of a particular issue to participate

In practice, prediction markets have proven to be more successful in predicting outcomes than consultation with experts. Companies such as Google use this mechanism as part of their corporate planning processes. Setting up a prediction market for health care would give consumers the opportunity of accessing knowledge from potentially hundreds or thousands of doctors and using this to inform their health care choices.

How it works: example

Rani has been diagnosed with a melanoma on her back. She has received advice from two different specialists on treatment options. This advice differs according to the recommended margins of the incision and the follow-up treatment. Like many treatment options, these choices involve balancing benefits and risks and neither choice is clear cut. Rani would like to obtain information from a broader range of doctors with expertise in this area. Via a prediction market she asks doctors to bet on the chances that her cancer will recur within a defined timeframe given different

treatment scenarios. Doctors are then able to bet on the outcome of different scenarios and those who turn out to make correct predictions benefit financially. Rani is able to use the information obtained via the prediction market to inform her choice of treatment.

CONCLUSION

In its first term in office, the Labor Government did more to progress health reform than the previous government managed in four consecutive terms. It tackled some of the most important structural barriers to reform and managed to gain COAG's agreement to major funding and governance changes.

However, the failure of the government to articulate the principles underpinning the proposed changes means that the reform agenda lacks coherence and a clear link with community values. Overall, the reforms concentrate on the funders of health care and ignore important consumer issues, including co-payments for health services, and fail to address key areas requiring reform, such as health workforce practices and the need for a more equitable distribution of health resources. The Rudd-Gillard government also left some glaring policy failures of the Howard era untouched, such as the private health insurance rebate.

The challenge for this new electoral term will be for the minority Gillard Government to deliver on the promises of reform while addressing the gaps in the current agenda. Tackling the vested interests of professional and industry groups will be the key to driving reforms in these areas. Ensuring consumers and consumer interests are at the centre of all reform efforts will be essential if the next three years are to result in real improvements in health care rather than simply administrative changes which shift costs from governments to consumers.

“Circumstances
of birth, family
and community
should not
determine who
succeeds and
who struggles.”

How to end social apartheid in schools

By Chris Bonnor

IMAGINE THIS LETTER from a suburban constituent to her local member in 2020:

I'm writing because I can't really find a secondary school for my son Jahred in Year 7 next year. The closest school is a church school but we're not churchgoers. Anyway, we can't afford fees like that. The closest public school was closed down in 2012. Another was made selective. There is a good school in the next suburb but it became one of those independent public schools a few years ago. They interviewed Jahred but now they say that they can't cater for his special needs. There is a music academy four suburbs away but he is really better with his hands. Of course there is the comprehensive school near the shops but I don't want him in with the wrong sort, if you know what I mean. Anyway, he doesn't mix with many of the kids that go there. They're not like us. Mum tells me that in her day there were plenty of good schools, and granddad grew up in the bush where all kids went to the local school. Everyone now talks about choice – but what choices do I have?

It would be a sad letter, one which suggests almost a social and academic apartheid, separating the schools depicted. What is really worrying is that many Australians could write a letter like this right now.

Many Australian schools are not obliged to take all comers. Simply by charging fees school enrolments are inevitably sorted along social lines – and devices such as tests, interviews, scholarships and references act as additional discriminators. Selective schools, particularly in New South Wales, contribute to the growing social and academic divisions between one school and another. Even a 'comprehensive' public school in a high demand area (that is, a high income area) has some capacity to pick and choose. There are enrolment procedures, rules and zones, but little gets between school principals and the intake of students they desire. In fact almost half our secondary schools have some say over who walks in through the school gate.

The flipside of consumer choice – where schools either actively or passively choose desirable students – is now a big feature of our education system. The end result is that we are seeing unprecedented social, academic and other differences in the enrolment profile of schools.

Fast facts: The widening gap

In 1996 there were around 13 low-income for every ten high-income students in our public school playgrounds. Ten years later there were 16 for every ten. The opposite trend occurred in private schools. This gap is increasing.

“Catholic schools are not educating most of our poor, especially at the primary level. 72 per cent of Catholic students from families with lowest third of family income attend Government infant/primary schools and only 19 per cent attend Catholic schools. At secondary level 63 per cent of the ‘poorest’ Catholics attend Government secondary schools and 22 per cent attend Catholic secondary schools. Predominantly our schools now cater for the huge Australian middle class, which they helped create.”

- CARDINAL GEORGE PELL, ARCHBISHOP OF SYDNEY,

SEPTEMBER 28TH 2006

Research and commentary in this area highlights the role played by our increasingly dysfunctional federal system of government; a complex umbrella under which good intentions have been mixed with trade-offs and short term fixes – and the education portfolio attracts more than its fair share of ad hoc decisions and special deals.

Research also refers to the arguably unique way in which Australian private schools are funded from both private and public sources with relatively little government oversight or regulation. These schools compete against each other and also against the public schools which are dependent on state government finances and which, unlike private schools, are usually obliged to enrol all comers. It would be hard to come up with a better formula for generating divides between schools.

But as the letter from Jahred’s mum suggests, the public-private divide is not the whole story. Public education systems have created and cemented their own hierarchies. Selective schools have multiplied in New South Wales. The impact of creating greater autonomy for schools in Victoria has been well-researched. The most recent variation to inclusive public schooling is the creation of ‘Independent Public Schools’ in Western Australia – something which has excited both Tony Abbott and Julia Gillard. In Stephen Lamb’s words:

“the school reforms driving the growing diversity in schools over the last decade have intensified the gaps between schools serving the rich and those serving the poor, gaps marked by growing differences in school size, student intake, resources and achievement.”

We know and should be concerned about the high cost of low educational performance. International comparisons show that selecting children for separate and unequal schooling does not deliver improved learning outcomes for whole systems or countries. We also know much more about the social and economic costs and impacts of inequality. In the light of this how much confidence can we really have in our divided school system with its long underperforming tail?

SCHOOLS POLICY: The need for a new approach

Since 2007, the Labor government has been working hard to build a more comprehensive and integrated national framework for curriculum, assessment, reporting, teaching and infrastructure. It can point with justified pride to its plans and programs in funding much-needed improvements to school buildings and facilities, targeted funding, teacher quality, school leadership, vocational education and access to university, to name a few. The commitment to equity, especially for Indigenous young people, is especially welcome.

But we can't continue to bolt even good policy onto a regressive school system. We need to reframe the education debate, while recognising that one third of the nation's children are enrolled in private schools. Jane Caro and I attempted this in *The Stupid Country*. A number of must-read analyses have been written by Jack Keating and more recently by Lyndsay Connors and Jim McMorrow. These all show that the way out of our current predicament lies in revisiting how we provide and fund schools.

Fortunately, in 2010, the Government has finally commenced its long awaited *Review of Funding for Schooling*. In the context of an otherwise conservative reform agenda, only this review gives cause for hope that attention will be turned towards the deep structural and equity problems in Australian schooling.

The *Discussion Paper and Draft Terms of Reference* for the Review seems to be sounding the right notes. It constantly refers to all students, the need to determine principles, to learn from overseas models and the need for a fairer and more transparent system. It even refers to the review being “evidence-based” – an expression which quickly went missing after the initial excitement of the 2007 election. Even the composition of the expert panel leading the review provides grounds for cautious optimism. Done properly, the review and reform of schools funding can address the issues discussed in this chapter.

But even the best plans and intentions can be hijacked by commitments and promises to vested interests, which would pre-empt any serious review of this enduring and difficult aspect of the politics of education in Australia. We can only hope that the newly-elected Gillard Government will follow through with this review, focus on the good principles already announced, and engage the community in debate on these fundamental issues: What sort of public education system do we want in Australia? What sort of society is our current system creating?

Review of school funding: Labor's principles

“The guiding principle of the review of funding for schooling is that a funding system will support schools to raise the educational standards of all school students whilst reducing achievement gaps between students.

In reviewing school funding arrangements, the Australian Government aspires to an outcome which:

- Results in a fair and simple funding model that supports student attainment and distributes funding to where it is needed most, regardless of sector.
- Builds the strongest possible platform for financially sustainable long-term investment in schooling and improvements in educational outcomes beyond 2012.

Consequently, the Australian Government's view is that the principles upon which any new model for school funding is developed should be based on simplicity, flexibility, stability, equity, value for money, transparency and best practice.”

Source: ‘Review of Funding for Schooling: Discussion Paper and Draft Terms of Reference’, Commonwealth of Australia 2010

Getting the focus right: Key issues in funding education

There has been an endless – but constantly recycled – debate about the merits or otherwise of public or private schools, and whether students in one system or the other should get more public funding. Media attention also intermittently focuses on the superficial labelling of good and bad schools encouraged by *My School*. However, the market principles underlying the current system of schools funding, that competition and choice creates quality for all, go unchallenged.

As we begin the second term of a Labor Government it is time to think long term, clarify goals and review policies, to ensure a strong alignment between principles, policies and the wider structural reforms needed to make these policies sustainable and successful. In the process we have to be driven by social justice concerns but also by the fact that greater equity and access to quality schooling, and improved educational outcomes, can deliver dividends in economic growth and competitiveness.

ISSUE #1: Supporting comprehensive public schools

Long ago Australia established a system of public schools premised on the belief that circumstances of birth, family and community should not determine who succeeds and who struggles. Quality public schools have always been at the centre of the successful Australian story. We need to reverse the long slow march away from a system in which most schools were inclusive, were rooted in their communities and which, in their 100-year heyday, significantly cut across social divides.

Strategy

The primary focus of the schools funding review must be on the schools that are open and accessible to all. This rests on one core principle: that every family deserves the choice of an excellent public school. Funding principles should reward schools, regardless of sector, which commit to inclusive enrolment practices.

ISSUE #2: Needs based funding to reduce the gaps

The main idea driving schools policy in Australia is the increasingly discredited belief that it is school competition and choice which creates quality for all. We promote this choice mainly by subsidising private schooling. But regardless of the merits of any individual schools, choice remains elusive for most people.

“The competitive use of individual choice, combined with selection and streaming and an increasing concentration of social geography, will stratify the opportunities available to students from different socio-economic backgrounds and undermine the performance of the system as a whole.”

- TOM BENTLEY, THEN DIRECTOR OF UK THINK-TANK DEMOS,
NOW ONE OF PRIME MINISTER GILLARD'S TOP ADVISORS

We are allocating scarce public resources – in many cases well above entitlement – to children whose level of achievement and access to quality learning is already well-supported. We increase the advantages for some while increasing the concentration of lower achieving children in disadvantaged schools. It is simply harder for all children to achieve in these circumstances.

Strategy

Good policy will identify the real drivers of quality and equitable schooling. It will ensure that public investment in schools allocates teachers and other resources according to the needs of all students for a quality education. It will acknowledge the diversity in school provision but, in common with most OECD countries, will ensure that this does not widen the opportunity and achievement gaps between children and between schools.

ISSUE #3: Rebuilding confidence with real transparency

The policies and strategies for transparency represented by the *My School* website don't really pass close scrutiny. The information provided is not sufficient, accurate or meaningful. It drives invalid comparisons between schools, in turn feeding a poorly-informed language about success and failure, winners and losers.

Strategy

Schools should always provide as much information as possible to parents and the wider community, information which is validated by independent and frequent school reviews. There are no short cuts in this, least of all the publication of comparative school-by-school tables based on raw student test scores.

Independent appraisal and the development of schools in cooperation with each other, improves quality far more than anything achieved by competition. Schools which are not performing to expectations should be provided with support, but if needed must also make changes to leadership and practice in areas as diverse as classroom teaching and links with their community.

ISSUE #4: Building social capital

We need to recognise and rebuild the social and civic purpose of inclusive schools. Schools generate and sustain social capital; they are part of the glue which creates viable communities and underpins a healthy democracy. Good policy will encourage the role that inclusive schools play in creating community cohesion, harmony and development. While all schools work hard in civic and social justice programs, the loss of the essential bridging and linking work performed by inclusive local schools reduces the power of all schools to create connections across religious, racial and social class divides.

Strategy

Public funding must strongly support, as a priority, local schools which are open to all students. Schools which choose, by the use of various discriminators, not to serve all children and families should have a reduced entitlement to such funding. If we can do this we'll achieve a much better balance between the private benefits schools provide for students and families and the wider public benefits of public funding – and we'll accrue social and economic dividends from this improved balance.

Issue #5: Effective investment in schools

For years we have been under-investing in early childhood education and under-investing in 'at risk' students in disadvantaged schools and communities – while combining public and private funding to over-invest in children whose level of achievement is already high.

Investment in education should provide the best delivery for the dollar, supporting student growth and maximising student achievement. We should better resource those children and families for whom it will make the greatest difference. Good policy will also ensure that investment in schooling is efficient, providing complementary rather than wastefully competing services, as well as providing the resources and services which are proven to be effective.

“No arbitrary obstacles should prevent people from achieving those positions for which their talents fit them and which their values lead them to seek. Not birth, nationality, colour, religion, sex, nor any other irrelevant characteristic should determine the opportunities that are open to a person...”

- MILTON FRIEDMAN AND ROSE FRIEDMAN

Strategy

We need to achieve a pattern of investment in schooling which reflects known evidence, agreed targets and priorities. The huge capital investment in school infrastructure is welcome but it has been rolled out regardless of school size, sector or properly assessed need. Even more important than the much publicised issues of waste and efficiency, it may simply be compounding the equity problem. Even if the claimed benefits of the computer roll-out are realised, the opportunity cost of the 'digital education revolution' really needs to be carefully considered.

ISSUE #6: Individual achievement and retention rates

Australia's school achievement and retention rates vary considerably over time and from place-to-place, with a persistent level of student disengagement. Our response seems to be to import unproven solutions – such as narrowly focused testing of students and subsequent ranking of schools – from jurisdictions which are less highly regarded and where claims of success are seriously contested. It's an odd strategy for a country where average student achievement ranks well in the world but where the underachieving tail, well-documented for some time in OECD reports, is doggedly resistant to a long parade of quasi-market reforms.

The retention of students into their late teenage years, supported by the best possible teachers, is crucial to maximising student achievement. This would improve livelihoods for all school leavers and deliver economic dividends which would accrue to the whole nation.

Strategy

Good policy will ensure that each school as far as possible will implement curriculum and teaching which caters for and engages all students. Rather than cutting off pathways for kids at the very time they grow and change, siphoning them into selective or trade schools, we must support proven

programs which can re-engage those students who might leave school early, including alternative school structures.

We need a national curriculum that meets the needs of all students, engaging them through to the time they leave.

Recommendations

1. Jack Keating's National Reform Agenda

A good start for education reform would be the structural initiatives and projects included in Jack Keating's 2009 proposals for a national reform agenda. Keating refers to curriculum and funding but also talks about the need for reframed goals and purposes, a common regulatory framework and a national quality agency. He calls for a specific focus on early childhood, the middle years and student pathways in the upper secondary years. Professor Keating has more recently added proposals for funding schools to meet the needs identified in his 2009 paper. He expands on the principles against which funding should be measured and considers the most effective means of distributing resources.

2. Teachers are the key: Connors and McMorrows' New Directions in School Funding

In their search for a funding model the expert panel should pay close attention to Lyndsay Connors and Jim McMorrows' *New Directions in School Funding – a Proposed Model*.

In the words of the authors, the directions proposed in their report would:

- Put education back into schools funding
- Provide a more educationally explicit, rational and ethical basis for schools funding
- Establish clear lines of responsibility
- Align government and non-government schools funding
- Make quality teaching the centrepiece of schools funding

In common with others they argue that there is currently no rational link between the amount invested publicly in all our schools and the work we expect of them. What they propose is deceptively simple: teachers are the most significant key to quality learning, so the provision of teachers to schools in Australia must be the mechanism by which governments

can achieve quality with equity. Connors and McMorrow show that governments are already providing the costs of teacher salaries and related expenses in Australia. The distribution of this resource means that the teaching workload of schools needs to be assessed. This workload will vary according to the range, intensity and complexity of needs arising from the students they enrol and the vastly differing circumstances in which they operate – something which is at the core of the problems described in this chapter.

Under Connors and McMorrow's model, schools with similar workloads and resource needs would receive a similar level of teaching resources, regardless of sector. Schools with the greatest gap between their current level of teaching resources and their target standard would receive the greatest level and rate of public funding increase.

Like all models it has to be tested and will need modifications and improvements. But at least they propose a manageable transition to needs-based funding, something we have walked away from over the last 15 years.

If implemented their model will address most of the issues raised in this chapter in a way which may even gain grudging acceptance from the very disparate interests in Australian school education. It will help to create comparable opportunities in all schools and most strongly support those schools which meet an obligation to be inclusive. Only in these ways can we recreate the social and civic purpose of schools and put quality, equity and the learning needs of children at the heart of our school system.

CONCLUSION

Perhaps the best way to conclude is to again think about Jahred and his mum. Unless things change Jahred's situation really will epitomise an increasingly regressive framework of schools. He wouldn't have any choice: he would go to the increasingly marginalised school near the shops. His classmates would be the socio-economically deprived, the strugglers; the only role models within sight will be the teachers trying to do the very best for Jahred against the odds. He may join that persistent and growing tail of underachievers. His country would more or less support him whatever he does – in school, in transition, in some work and even in jail. But Jahred – and the rest of us – would all have lost an opportunity to do something better.

“To stop asylum seeking, the Australian system would have to be worse than the places that people are fleeing - worse than extra-judicial killings, torture and persecution.”

**It takes a bleeding
heart to see the
bleedin' obvious**

By Kate Gauthier

MOST POLICY REFORMERS, especially social policy reformers, like to tell governments where they should spend more money. But when it comes to asylum seeker policy, reform advocates are not asking the government to spend more money; we are begging them to spend less.

It would be hard to find another area in which more money is thrown away on policies that prove completely ineffective, are extremely expensive, breach both international and domestic law, and inflict further damage on people who have fled persecution, torture and trauma.

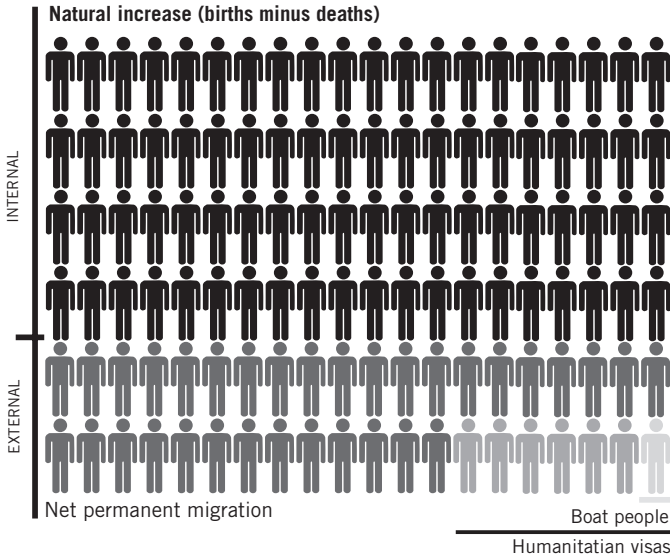
Although onshore asylum seekers (people requesting asylum after they arrive in Australia) make up a much smaller number of entrants to Australia than our offshore refugee and humanitarian program, they dominate media and public interest. Australia granted a total of 13,507 refugee and humanitarian visas in 2008-09. Of these, onshore protection visa grants were only 2,378, or 17 per cent and less than half of these came by boat. The majority of our onshore asylum seekers actually arrives by plane and live freely in the Australian community without generating scathing opinion pieces.

In the current financial year (2009-10), asylum seekers who have arrived by boat and received permanent protection will make up less than one per cent of the migration program (around 225,000 in 2008-09).

Why then is so much money spent on so few? And why do we have a bipartisan approach to 'getting tough' on the victims of persecution, that sees the ALP and the Coalition engaged in a policy war of attrition, with asylum seekers as the collateral damage?

Unfortunately, this is an area of policy that, more than any other, is not developed in the halls of government but on the airwaves of talkback radio and in newspaper opinion pages. This leaves both sides of politics forced to peddle policies which, in their heart of hearts, they know are both cruel and destined to fail.

New Australia, 2009



Figures

- 1,925 refugees by boat (\pm 650 people; estimated at 70% of 2,750 maritime arrivals in 2009)
- 11,582 other humanitarian visas
- 63,493 other migrants (158,021 incoming minus \approx 81,000 outgoing)

Sources

- <http://www.aph.gov.au/library/pubs/BN/sp/AsylumFacts.htm>
- <http://www.immi.gov.au/media/fact-sheets/02key.htm>
- <http://www.abs.gov.au/assstats/abs@.nsf/mf/3101.0>

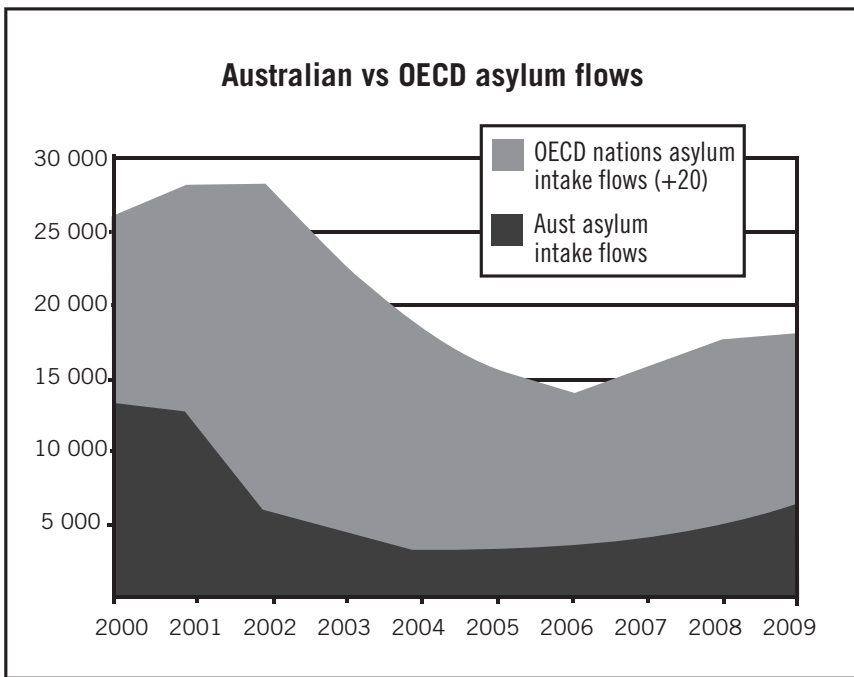
PUSH-ME PULL-YOU

Before looking at suggestions for policy change, it is important to address the myths and facts of push-pull factors affecting asylum numbers, upon which most policies are based.

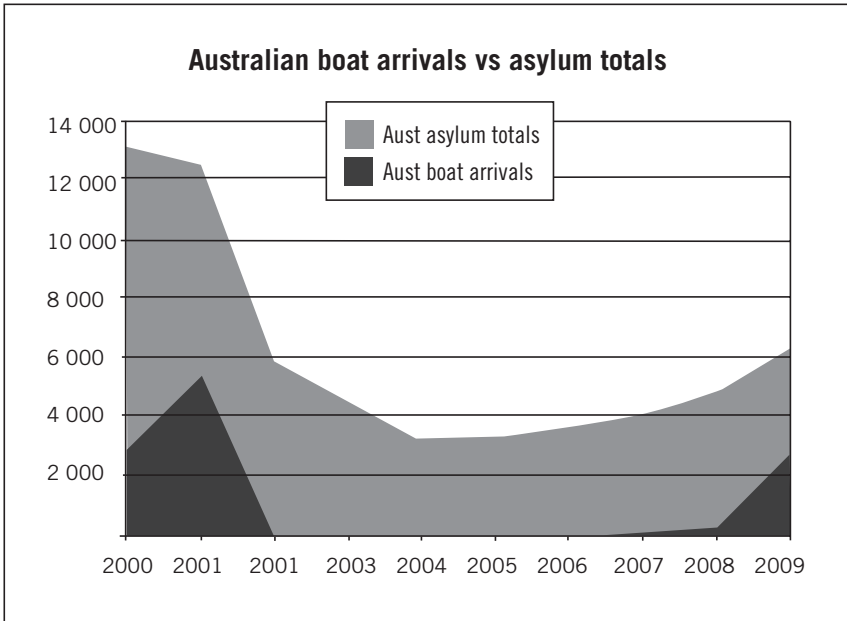
There has been no proper analysis of any impact that domestic policy changes have had on asylum flows to Australia. Claims that Howard era deterrent policies 'stopped the boats' by reducing pull factors to Australia is sloppy policy evaluation at its worst, using only a temporal link to prove cause and effect. Claims that only push factors, such as in-country security

concerns, have increased boat arrivals have no basis in proper research either. Without proper research and analysis, it is impossible to say definitively if Australia's varying numbers are caused by normal changes in global asylum flows, statistical blips or domestic policy.

However, a cursory study of the statistics can give some ideas as to cause. As this first graph shows, Australia's varying asylum numbers have largely followed global trends over the years. Some small variation exists which is claimed by some to be caused by domestic policy changes.



Since there are similar ebbs and flows for plane arrival asylum seekers as boat arrivals, as shown by the second graph, the statistical analysis implies that domestic policy focused on boat arrivals has, at best, only a marginal impact on numbers. Given the costs of those policies – financial and human – was it really worth over \$1 billion to process a mere 1,700 asylum seekers under the Pacific Solution?



Source: OECD International Migration Outlook 2010, and Department of Immigration figures.

THE STORY SO FAR

Boat arrivals: the 'Indian Ocean solution'

The Howard Government's split-personality approach to asylum seekers arriving by boat versus plane has continued under the Rudd and Gillard Labor Governments. All boat arrivals are taken to Christmas Island, dubbed by many as the Indian Ocean Solution. Although conditions and their treatment are a vast improvement on Howard's Pacific Solution in Nauru and Papua New Guinea, the policy still entails breaches of international human rights instruments. Boat arrival asylum seekers are given a truncated protection assessment process compared with plane arrivals processed on the mainland – they do not have access to the standard merits review or any judicial review. This reduced investigation of claims will inevitably result in refoulement, the return of refugees to danger.

In theory, the 2008 reforms made to detention policy – changing Howard’s mandatory prolonged detention regime into a risk-based community detention system – should also apply to asylum seekers on Christmas Island. In reality they cannot, because there simply is not enough community infrastructure available on the island to accommodate the release of people who do not pose a health, security or compliance risk.

Single men remain in detention until they are either granted a protection visa, or are moved to the mainland in order to facilitate a removal from Australia. There is no risk-based community detention for them.

Women and children

The matter of women and children is also problematic. They are generally kept in the ‘construction camp’ on the island, with far less security. However, it is not community-based accommodation by any means. With overwhelming numbers of children, there is not enough space on Christmas Island to accommodate them. The Government has moved groups onto mainland Australia into different locations. As of May 21st 2010 there were a total of 452 children in detention with only nine in community detention. The Government has kept them under guard in hotels and in remote outback towns. Again, for boat arrivals, there is no such thing as risk-based detention with community release for those deemed not to pose security, health or compliance risks.

The problem is that the Rudd and now Gillard Governments have the same view as the Howard Government, that Australia’s boundaries should be drawn differently for asylum seekers. Unless asylum seekers reach the mainland, they are still subject to excision laws, which grant them far fewer legal rights than asylum seekers processed on the mainland.

WHERE TO FROM HERE?

Recommendations for policy reform

There are two areas of asylum seeker policy: the international and the domestic. Each area has different policy objectives and possible outcomes. The first area deals with the breakdown in the international system of refugee protection that causes asylum seeking. The policy objective in this area should be to provide better refugee protection with an additional outcome being a reduction in the flow of asylum seekers to Australia.

The second area, domestic policy, deals with what we do with the asylum seekers themselves when they reach Australia. Policy objectives should be to create a cost-effective and humane system that quickly and fairly determines who is owed protection under international human rights instruments, and does so in a manner that protects the Australian community from any security or health threats. Using domestic policy to stop asylum flows is unrealistic and immoral. To stop asylum seeking, the Australian system would have to be worse than the places that people are fleeing – worse than extra-judicial killings, torture and persecution. And to attempt to influence the behaviours of other asylum seekers in third countries by punishing individual asylum seekers in Australia, who have committed no crime, is quite clearly immoral and in some cases a breach of our constitution.

Asylum policy: Eight key steps for reform

1. Set an example in our region by adopting best practice for asylum seeker and refugee protection.
2. Encourage neighbouring countries to sign the Refugee Convention.
3. Reduce the regional bottleneck with a short-term resettlement program.
4. Use the same risk-based detention approach for all asylum seekers, whether they arrive by plane or boat.
5. Create appropriate accommodation centres instead of high security detention centres and work with NGOs to establish community-based supported accommodation programs for those who are released into the community pending a visa outcome.
6. Provide living assistance (funds) to those in the community awaiting a visa outcome.
7. Expand programs such as the Community Assistance Support program to all vulnerable cases.
8. End the use of Christmas Island and repeal the excision laws.

**INTERNATIONAL POLICY:
A breakdown in protection**

While it is difficult for any single country to have a significant global impact on improving the system of refugee protection, Australia could certainly have a greater positive impact in our region.

Currently, Australia's foreign policy focus is on the 'evil trade' of people smuggling and policies approach the issue as a criminal one. However, asylum seekers only exist where there is a lack of effective protection options. Removing people smugglers does not remove the core reason for the irregular movements of asylum seekers. The Government could make a long term impact on asylum flows in our region in three crucial ways:

1. Set an example by adhering to our human rights obligations

We cannot expect our neighbours to adhere to their human rights obligations when we attempt to deflect our own obligations onto other nations, by turning around boats at sea or sending asylum seekers to third countries for processing.

2. Encourage others to sign the Refugee Convention and assist them to comply

Using our significant diplomatic influence, combined with aid incentives, we could be doing much more to encourage nations in our region to become more involved in refugee protection. We need to provide funding and expertise to assist them to establish protection and settlement programs once they are signatories. We also need to take a proportion of our resettlement quota from this region, reassuring our neighbours that they would not carry the regional protection load alone.

3. Reduce the asylum bottleneck

In the short term, Australia should take some of the pressure off the asylum bottleneck in South East Asia by increased resettlement from the region. This could be done with very little disruption to the current migration program, by allocating some extra places over and above the annual 13,750 places in the offshore refugee and humanitarian program. This would reduce the attraction of boat journeys even for those not resettled immediately, as they would be able to see a realistic chance that they may be resettled eventually. According to the United Nations High Commission for Refugees (UNHCR), as at 30 April 2010 the Indonesian office of UNHCR had a caseload of 3,471 comprised of 2,705 asylum seekers and 766 refugees. The five year average for resettlement of refugees from Indonesia is a mere 82 people per year, which shows why many decide that 'waiting patiently' is not a good option.

Regional Processing Centre (RCP)

On July 6th 2010, Prime Minister Gillard announced a new asylum seeker policy to establish a “regional processing centre (RPC) for the purpose of receiving and processing irregular entrants to the region.” The lack of details released makes it very difficult to make any in-depth assessment of the proposal. However, the key point that most media commentary missed was that the announcement also stated the RPC is just one initiative in a commitment “to the development of a sustainable, effective regional protection framework.”

If a protection framework is truly the approach, and if done correctly (and this is a very big if), this could be a leap forward to more effective regional cooperation leading to increased protection options for refugees and a reduction in asylum flows. In turn, that could lead to non-signatory countries such as Indonesia and Malaysia recognising that it would be in their best interests to sign the Refugee Convention and become part of a new cooperative regional approach to asylum. The greater sharing of resettlement in our region could then lead to an increase in public support domestically for Australia’s involvement in refugee protection.

However, if the focus of this policy is simply to reduce the domestic political problem of boat arrival refugees being granted protection in Australia, to move them offshore and out of the public eye, then this could lead to the warehousing of refugees in detention-like conditions and would be little better than the Pacific Solution. Any proposal that results in Australia shifting its responsibility elsewhere should be condemned. UNHCR has indicated this approach should complement, but not be a “substitute for a fully functioning, fair national assessment process.” The RPC should only be used as a preventative measure. Once asylum-seekers reach Australia, we have an obligation to process their claims and ensure that they are granted protection in a timely manner.

Three key areas need to be included in any RPC approach:

- Accommodation: asylum seekers must not be detained, and the alternatives may create difficulties with local populations in poorer nations. Who will manage accommodation centres and who will oversee them to ensure that human rights standards are maintained?
- Asylum claims processing: under whose system of law will asylum seekers be processed? Refugee Convention signatory nations have an obligation to allow asylum seekers access to their domestic court system. To subvert this legal right, will Australia ask other nations to copy our excision laws, which are a breach of this provision within the Convention?

- Resettlement: processing needs to be coupled with realistic timeframes for resettlement so people are not left in limbo for years with no real protection; the very reason for asylum flows in the first place.

This should not be seen as an easy or quick-fix solution. It will take some time to set up proper processes, external scrutiny and develop a framework for resettlement. We have seen a shaky start to the proposal. Australia should have started with a regional conversation, not a bilateral one with East Timor. In order to show we are serious, Australia should increase our resettlement places from 13,750 to 20,000, keeping a significant proportion aside for regional protection burden sharing arrangements.

Of course, to start such a program, we do not even need to build yet another expensive processing centre. We should start by taking people waiting in Indonesia, who otherwise will risk their lives on boats as the resettlement waiting time is currently far too long.

DOMESTIC POLICY: Treatment of individual asylum seekers

Despite the recent announcement of a regional processing centre, this will not negate the need for domestic asylum policies. The majority of our asylum seekers actually arrives by plane and will not be affected by this policy, and the reduction of boat arrival asylum flows will not be immediate. Most importantly, a regional processing centre should not be a substitute for an Australian protection claims processing system, but should instead be a preventative program to reduce dangerous boat journeys.

There is no shortage of policy suggestions for the treatment of onshore asylum seekers. To make a good start we do not even need to write new policies, but to take current policies and practices used for plane arrivals and properly apply them to boat arrivals. Overall, we just need to change the way we spend money – which would result in spending much less – as all estimates for humane onshore reception programs are far cheaper than the policy of mandatory detention of all non-visa holders.

A United Nations High Commission for Refugees (UNHCR) study on the international experience of alternatives to detention found that providing accommodation and material support during the asylum procedure was critical

to ensuring compliance with the immigration process. The research found that alternatives to detention remain effective enforcement tools, while being more fiscally responsible than detention.

4. Use the same risk-based detention approach for all asylum seekers: plane and boat arrivals

On July 29th 2008 Senator Chris Evans, Minister for Immigration, announced the New Directions in Detention policy. It changed the mandatory prolonged detention regime into a risk-based detention system. All unauthorised people would still be subject to mandatory detention in the first instance, but people would undergo health and security checks and a compliance assessment. Those deemed not to be a risk to the Australian community and not a flight risk would be released into the community under a variety of mechanisms with differing levels of security and monitoring.

The most humane and least expensive outcomes would flow from the simplest policy change: take the current risk-based policies and practices used for plane arrivals, and properly apply them to boat arrivals. If someone is not a health, security or absconding risk, why pay all that extra money to traumatise them in detention?

5. Create appropriate accommodation centres instead of high security detention centres and work with NGOs to establish community-based supported accommodation programs for those who are released into the community pending a visa outcome

Many studies have demonstrated the negative psychological impacts of detention on asylum seekers. In order for the 2005 (Howard Government) and 2008 (Rudd Government) reforms to be truly effective, the focus needs to be on creating flexible accommodation and reception programs. All arrivals require accommodation in the first instance while security, health or identity concerns are addressed, and more importantly, while their social service needs are assessed. However, high levels of security are unnecessary in the majority of cases while these checks are conducted. Unfortunately, the complete lack of flexible accommodation facilities has tied the hands of the Department of Immigration, which had nowhere else but detention to place vulnerable asylum seekers pending the outcomes of those checks.

6. Provide living assistance (funds) to those in the community awaiting a visa outcome

The Asylum Seeker Assistance Scheme and the Community Assistance Support program provide limited financial support to some asylum seekers living in the community. However, the eligibility guidelines restrict many from receiving any assistance, leaving people destitute. Hotham Mission recently found that many asylum seeking children were not housed or fed to standards required by international law. The Government must expand these programs to ensure that, at minimum, all people who are allowed to remain in Australia are adequately fed, housed and clothed.

7. Expand programs such as the Community Assistance Support program to all vulnerable cases

In 2005, John Howard pledged to remove children from behind the razor wire, writing into the Migration Act that “Children shall be detained as a measure of last resort.” The release of children and their families, combined with the scandals of Cornelia Rau, a mentally ill Australian resident who was detained, and Vivian Alvarez Solon, an Australian citizen who was deported, meant that new ways of case-managing and accommodating vulnerable people were developed, including finding alternative non-detention accommodation.

As part of this, then Immigration Minister Senator Vanstone began a trial of the Community Care Pilot, now the ongoing Community Assistance Support program. This pilot succeeded because it used a holistic case-management approach, while keeping people in the community instead of in detention centers. The idea was that if you treat people humanely and ensure all their health and living needs are met, this will have positive outcomes for their immigration case. They are better able to assist in their case (trauma has detrimental effects on memory) and are more compliant because they feel their case is being heard fully and fairly. According to workers at service delivery agencies, this pilot program led to far higher rates of uncontested and voluntary returns of failed visa applicants. Overall, this reduces the costs of litigation, detention, and expensive forced and chaperoned returns home.

8. End the use of Christmas Island and repeal the excision laws

This package of suggested policy changes would necessarily mean transferring all asylum seekers off Christmas Island, as there is a lack of alternative accommodation on the island to allow for the release of people (who do not pose any risk) from the high-security detention facility. The remoteness of Christmas Island also makes it impossible to deliver torture and trauma counseling services that are readily available on the mainland. The location vastly increases the costs of accommodating detainees while reducing the quality of services provided to them. Governments in recent years have been loath to provide per detainee per day breakdown of costs. The latest available figures put Christmas Island at \$2,895 per detainee per day compared with Villawood in Sydney at \$190 per detainee per day.

Offshore detention and processing of asylum seekers is a breach of our international obligations under the Refugee Convention, the International Covenant on Civil and Political Rights and the Convention on the Rights of the Child. But it is also bad policy from a purely rationalist perspective, as it does not achieve its goals. As outlined earlier, there is no evidence to show that punitive practices have any significant impact on asylum flows. If it does manage to reduce the acceptance rate of protection claims from excised compared to mainland-processed asylum seekers, then the excision system is set up for *refoulement* – the return of genuine refugees back to situations of danger.

THE ROADBLOCKS

The media

The key roadblock to the adoption of these reforms is the current public and political environment. Since the boats started arriving again, there has been a media frenzy over the numbers, with the same kind of statistical obsession usually reserved for footy league tables, school rankings and Easter weekend road fatalities. The Coalition has jumped on the opportunity to reprise the 2001 election and talkback radio has once again put this issue on high rotation, probably increasing community fear and concern.

Illegal immigrants

Asylum seekers are often referred to as “illegals.” Under international and domestic law, it is not illegal to enter Australia without a visa for the purpose of seeking asylum. They have not broken any law at all. In fact, to be classified as a refugee you must be “outside your country of origin” which means that nearly every refugee must enter a country without a visa in order to reach UNHCR for processing.

Failure of Government to frame the debate

The Rudd Government missed an important opportunity to reframe the public debate about asylum seekers when it was elected in 2007. It could have generated public discussion that did not vilify individual asylum seekers or see small numbers of boat arrivals as a threat. This would have provided Rudd with public support for a more humane and evidence-based approach to policy reform. Instead, the Rudd Government continued to use the language and framing of the Howard Government, presenting asylum seekers as a border security issue, as an undesirable phenomenon, and as an international crime issue. By maintaining the negative view of asylum seekers while at the same time trying to be more compassionate in some policy reforms, the Rudd Government set itself up for failure. In essence, they have upheld the view that asylum seeking is a national security threat, but have softened policies believed by many Australians to stop it.

The Gillard Government is heading down the same path. Her first comments on the issue as Prime Minister were to attack the opposition’s “fear mongering”. However, she then followed by saying she would provide “strong management of our borders”, continuing to frame asylum seekers as a border protection threat. The problem with this approach is that Liberal policy makers will always be prepared to ‘out-tough’ any Labor asylum policies and thus appear more effective when the issue is framed as one of national security.

REMOVING THE ROADBLOCKS

In order to address community fears and media misinformation on this issue, the Government should embark on a long-term education and information program. It needs to change the language, moving from the crime and punishment focus on people smugglers, to a solutions-based focus on the needs of people fleeing persecution. The Department of Immigration must be more proactive in providing briefing sessions for journalists and tackling

incorrect news articles like the constant media use of “illegal” when referring to asylum seekers, when asylum seekers have broken no law. There should also be greater government support for NGOs and community groups who engage in providing the community with information on this issue.

There also needs to be more community information on the benefits that refugees bring to Australia. Many people argue that we have an international responsibility to protect refugees. That is true. There are also pragmatic reasons. Australia has a significant migration program and refugees make excellent migrants. This is partly because more than any other migrant group, they have a vested interest in making a go of it because they have no homes to return to if their settlement in Australia fails.

Australia has settled over 740,000 humanitarian entrants since federation. In that time, refugees have made significant social, civic and economic contributions to Australia. Five of Australia's eight billionaire families in the 2000 Rich List came from refugee backgrounds.

MOVING FORWARD

Successive Australian governments have viewed boat arrival asylum seeking as a problem which must be stopped, but none has ever given valid reasons for why they consider it a problem of such national importance, when asylum seekers come in such tiny numbers. Unfortunately, there has been so much scaremongering on this issue that most policy makers have forgotten to see asylum seeking as it should be seen – a human rights protection issue, not a migration issue.

Fixing asylum seeker policy is far simpler than it appears and would save enormous amounts of money. However, until the framing of this issue is changed, those policy changes will never be made.

The approach for the past two decades has been punitive, punishing people for seeking protection. There is no clear evidence to suggest that those policies actually worked. In fact, new policies for community-based asylum seekers show that taking a more humane and constructive approach results in greater compliance with the system. We also know it costs a lot of money to be cruel. It is time to decide that the 20-year experiment in taking a penal approach to asylum has failed, and we must extend the risk-based detention approach

across the whole asylum seeker regime, particularly for those detained on Christmas Island.

Many would describe that approach as a solution from the left of politics. But it is not a question of left or right; this issue breaks down the usual political divides. Petro Georgiou, Judy Moylan, Bruce Baird, Nick Greiner, John Hewson and Malcolm Fraser have shown that courageous moral action on social justice issues is not just the provenance of the 'left' parties. And Julia Gillard, herself from Labor left, has shown that unsympathetic attitudes to asylum seekers is not confined to the conservative right.

There is much electoral advantage to be gained in this area of policy. So much so that good evidence-based policy can be ignored, and brutal but ineffective policy adopted, in the hope of gaining that advantage. In the short term, there is little hope for real change in asylum seeker policy. It will not happen until we have a leader from either side of politics prepared to change the framing of this issue and generate a change in public opinion, a leader who can find the moral fortitude to forgo the votes gained by pandering to uninformed fears.

Instead of trying to dodge our international obligations to refugees, or use asylum seekers for political mileage, Australia should be proud that asylum seekers come to us for help. Our nation is a dream to persecuted people. We are that 'somewhere over the rainbow' where refugee children can be safe, where they can find freedom from fear. Australia's system of democracy, rule of law and stable society are a beacon of light in a dark world. In order to reduce those tiny numbers of desperate people who come here, some politicians want to subvert the law, to reduce the rights we grant to people and to treat them inhumanely. To do this would snuff that light in the darkness, the very thing that makes Australia a great nation.

“The apology to the
Stolen Generations
two years ago
displayed the power
of bold, responsible
political leadership.”

Human rights at the cross-roads

By Phil Lynch

THE PROMOTION and protection of human rights in Australia is at the cross-roads.

The next three years provide an opportunity for the Gillard Government to give real substance to Australia's promise to be a "principled advocate of human rights for all."

Alternatively, the next three years could see Australia squander much of its human rights capital, with recent events such as the asylum freeze and deaths in police custody showing that we must always remain vigilant against human rights regression.

May 2010 alone witnessed historic progress on Indigenous rights and gender equality, with the establishment of the National Congress of Australia's First Peoples and amendments to modernise the *Sex Discrimination Act 1984* (Cth). That month also witnessed the unlawful suspension of asylum claims from Afghanistan and Sri Lanka, a Federal Government announcement that the Curtin detention centre would be re-commissioned, and a decision to deport a long-term Australian resident in direct contravention of a request by the UN Human Rights Committee not to do so.

What has brought us to the cross-roads is the Labor Government's response to the report of the National Human Rights Consultation, its new 'Human Rights Framework'. It has been variously described as "positive and practical", "icing without the cake" and "just a damp squib."

THE STORY SO FAR

Human rights have not always been a political football. Just over 60 years ago, Labor Attorney-General and foreign minister Herbert 'Doc' Evatt presided over the UN General Assembly as it adopted the historic *Universal Declaration of Human Rights*. Evatt rightly predicted that "millions of people all over the world would turn to it for help, guidance and inspiration." Conservative leader Winston Churchill advocated its adoption into the British legal system, calling for a charter of human rights "guarded by freedom and sustained by law."

Some 20 years later, the *UDHR* was enshrined as international law in two major treaties: the covenants on civil and political rights, and on economic, social and cultural rights. Labor Prime Minister Gough Whitlam signed both

treaties within the first two weeks of his election. Malcolm Fraser, his Liberal successor, ratified both covenants. The importance of the legal recognition and protection of human rights was one of the few issues on which, at the time, both men agreed.

Despite this, and despite Australia being a consistent champion of human rights on the international stage for the next 40 years, no Australian leader has taken the further steps necessary to protect those rights in Australian law.

NATIONAL HUMAN RIGHTS CONSULTATION

Launched on December 10th 2008, the 60th anniversary of the *Universal Declaration of Human Rights (UDHR)*, the National Human Rights Consultation asked Australians three simple questions:

- Which human rights should be promoted and protected in Australia?
- Are these rights sufficiently promoted and protected?
- How could we better protect and promote human rights?

The consultation was one of the most extensive exercises in participatory democracy in Australian political history. The independent Committee concluded that “after 10 months of listening to the people of Australia, [there is] no doubt that the protection and promotion of human rights is a matter of national importance.”

Fast facts

The Consultation Committee received over 35,000 public submissions, the largest response to a public consultation exercise ever undertaken in Australia.

It hosted 66 roundtables in 52 metropolitan, regional and rural locations. It also commissioned a national phone survey and focus group research.

Participants were able to share their views by making a written submission online or by post, attending a community roundtable discussion, or posting a comment on an online forum.

The consultation process concluded with three days of public hearings, held in Parliament House from 1-3 July 2009.

The Committee's report, released in October 2009, made five key findings:

1. Human rights matter deeply to Australians.

They resonate with Australian democratic values, the rule of law and our sense of a fair go. There is strong support for the promotion and protection of all human rights, including economic, social and cultural rights, such as the rights to education, housing and the highest attainable standard of health.

2. Our democratic and legal institutions do not provide comprehensive or even adequate protection of human rights.

While our institutions are strong, the patchwork quilt of human rights protection is missing pieces and this is felt most keenly by the marginalised and vulnerable.

3. Human rights are not enjoyed fully or equally by all Australians.

Both in fact and in law, many groups within Australia experience profound disadvantage, including the homeless, people with mental illness, Aboriginal Australians, asylum seekers and children with disability. There is a strong view that "we could do better in guaranteeing fairness for all within Australia and in protecting the dignity of people who miss out." Independent polling found that up to 75 per cent of Australians support stronger measures to protect the human rights of people with mental illness, the elderly, Aboriginal Australians and people with disabilities.

4. There is a need for better education about human rights within the community.

Human rights also need to be better understood within government and given greater consideration in the development of legislation and policy. Instilling a human rights culture in the federal public sector is integral to better protect and promote human rights in Australia.

5. There is very strong support for a comprehensive national Human Rights Act.

Of the submissions which considered the issue, 87 per cent supported a Human Rights Act, while independent polling found

57 per cent support enactment, and only 14 per cent oppose it. The Consultation revealed that Australians understand the fundamentally democratic role of the judiciary in protecting human rights and the rule of law. Some 86 per cent of us consider that government has a high level of responsibility in relation to the promotion and protection of human rights; 84 per cent also recognise the significant responsibility of the courts in this regard.

In response to these five key findings, the Committee made 31 recommendations. The most significant and vigorously debated recommendation was that:

“Australia should adopt a comprehensive, enforceable Human Rights Act, the aim of which should be to promote a dialogue about human rights between parliament, the executive, the courts and the community.”

The Committee recommended that this Act be modeled on the “legislative dialogue” model of human rights protection, reflected in instruments such as the Victorian *Charter of Human Rights and Responsibilities Act 2006*, the ACT *Human Rights Act 2004* and the United Kingdom’s *Human Rights Act 1998*. Under the Act proposed, human rights would be able to be tested in the courts and enforceable, but parliament would retain sovereignty and ‘the final say’.

The Committee was persuaded by the evidence that a national Human Rights Act would promote more accountable government, improve public services, address poverty and disadvantage, and enshrine fundamental unifying values.

MYTHBUSTER: The impact of a Human Rights Act

The report confronted and comprehensively debunked myths about a Human Rights Act. The evidence demonstrated a Human Rights Act **would not:**

- Result in a substantial increase in litigation
- Diminish parliamentary sovereignty or the constitutional balance of power between the executive, legislature and courts
- Protect minority rights at the expense of the majority
- Undermine religious freedoms

THE GOVERNMENT RESPONSE: No Human Rights Act

On April 21st 2010, the Government released 'Australia's Human Rights Framework' in response to the National Human Rights Consultation Committee report. Launching the framework, the Attorney-General Robert McClelland MP stated that it contains "positive and practical" measures and "reflects the key recommendations made by the Consultation Committee, including the need for greater human rights education."

Significantly, however, the framework does not include a commitment to a Human Rights Act. The Attorney-General stated that such an Act would be "contentious" and that "the enhancement of human rights should be done in a way that as far as possible unites, rather than divides, our community."

The failure to commit to a comprehensive Human Rights Act is a missed opportunity to strengthen Australia's democracy and build a fairer, more inclusive community. It flies in the face of evidence, a strong democratic mandate and the status of human rights as universal minimum standards which must be promoted and protected by all means necessary.

The basis upon which a Human Rights Act was rejected – that it would be contentious and divisive – was spurious and an abdication of leadership. That conclusion failed the test of political leadership, vision and resolve. Far from being divisive, a Human Rights Act would unite us through legal protection and institutional strengthening of those Australian democratic values we hold in common. As the Apology to the Stolen Generations demonstrated, political leadership and vision can unite people, even on controversial issues. That is particularly the case when what is proposed is good, evidence-based policy that resonates deeply with our Australian commitment to respect, tolerance, fairness, freedom and the rule of law.

A Human Rights Act deferred is human rights denied. The Government's rejection of an Act until at least 2014 is a denial of the many benefits which demonstrably accompany human rights legal protections. Evidence and experience from Victoria, the ACT and the UK, each of which have 'dialogue-model' Human Rights Acts, demonstrate that a national Act would promote more accountable government, improve public services, address poverty and disadvantage, and enshrine fundamental unifying values. Instead, the homeless, the elderly, people with mental illness and children with disability – all of whom have been beneficiaries of human rights laws in comparative

jurisdictions – must now wait at least another four years before their human rights are adequately protected and promoted at the national level.

What difference would a Human Rights Act make?

Case Study 1: Threatened eviction of father and three year-old son from public housing breaches Human Rights

A man and his three year old son who lived in a home owned by the Director of Housing were threatened with eviction. The home was leased to the man's late mother in 1998 by the Victorian Department of Housing and he continued to occupy the premises after his mother died from cancer. The Director of Housing applied for a possession order under the *Residential Tenancies Act*. The case was brought before the Victorian Civil and Administrative Tribunal which found the Director's decision to seek eviction without any justification or evidence was in breach of the right to family and home under the Victorian *Charter of Rights*. This case will affect 70,000 public housing applicants in Victoria.

Case Study 2: Child with autism gains entitlement to disability assistance

A 13 year-old boy with Asperger Syndrome was ineligible to receive disability support services because the Victorian Department of Human Services had an inflexible policy stating that Autism Spectrum Disorders do not constitute a 'disability'. The child's mother applied for a review of the government decision based on the human rights to respect for private and family life and the best interests of children. The government settled the case by amending policy to acknowledge Autism Spectrum Disorders as disabilities, thereby entitling Victorians with autism to disability assistance. The government backed this announcement by \$2.75 million in additional funding.

Case Study 3: Better solutions for young people with brain injuries

A rehabilitation centre operating as part of a public hospital wanted to discharge several young people with acquired brain injuries because their two-year contracts at the centre had ended. However, the only alternative care facilities available were aged-care facilities, which would not provide the environment or support necessary for the young people to continue their recovery.

A disability advocate raised the Charter with the rehabilitation centre, which agreed not to move the young people until it had considered its obligations under the Charter. The centre took a collaborative approach and consulted with the young people and their families. The result was that all five young people

were placed in accommodation that was acceptable to them, their families and the rehabilitation facility.

Using the Charter opened a space for creative, tailored solutions to be developed.

The campaign for a Human Rights Act that befits, protects and unites us has only just begun.

AUSTRALIA'S NEW HUMAN RIGHTS FRAMEWORK

The absence of a Human Rights Act aside, the new 'Human Rights Framework' contains several significant and valuable commitments. These commitments include:

- A Joint Parliamentary Committee on Human Rights, which will be mandated to review legislation and conduct inquiries on human rights issues
- Legislation requiring that each Bill introduced to parliament be accompanied by a statement which assesses its compatibility with the seven core human rights treaties to which Australia is a party
- A review of legislation, policies and practices for compliance with Australia's international human rights obligations
- The development of draft exposure legislation to harmonise and consolidate Commonwealth anti-discrimination laws, and
- Enhanced human rights education, both for the community and the public sector.

Appropriately conceived and effectively implemented, these measures will improve the development of laws, policies and practices, and help ensure that human rights are properly considered in legislative, parliamentary and executive decision-making processes.

So, how can we ensure that these benefits are realised?

Parliamentary scrutiny and protection of human rights

The Federal Government has moved quickly to implement the recommendations relating to parliamentary protection of human rights, introducing the *Human Rights (Parliamentary Scrutiny) Bill 2010* to the House of Representatives on June 2nd 2010. The Bill establishes a Joint Parliamentary Committee on Human Rights to:

- Examine all Bills, legislative instruments and existing Acts “for compatibility with human rights”
- Inquire into “any matter relating to human rights which is referred to it by the Attorney-General”

The powers, proceedings and modalities of the Committee are to be “determined by resolution of both Houses of Parliament.”

Essentials for effective parliamentary oversight

For the Committee to fulfill its functions effectively, it should:

- Be given expanded functions, namely:
 - “To inquire into any matter relating to human rights which is referred to it by resolution of either House of Parliament.” This would enhance the independence and effectiveness of the Committee and ensure that its capacity to conduct thematic inquiries is not solely determined by the Government of the day, and
 - “To monitor and report on the implementation of the recommendations and views of UN human rights bodies.” This would enable parliament to play an active role in monitoring, overseeing and following up on the implementation of recommendations and decisions of international human rights mechanisms.
- Be given broad and permissive powers. The broad mandate and modalities of the UK Joint Committee on Human Rights, recommended by the Council of Europe as an example of best practice in parliamentary human rights scrutiny, is one of its key strengths.
- Conduct its own rigorous, evidence-based independent analysis in assessing and reporting on the human rights compatibility of legislation, to ensure effective scrutiny of Bills. It should not just rely on the Government’s Statements of Compatibility (see below).

- Have the power to call for submissions, convene public hearings and examine witnesses. This is imperative if the Committee is to facilitate an “increased level of community engagement” with the parliamentary dialogue and “play a key role in influencing the accessibility and utility of this dialogue.”
- Be given sufficient time to conduct inquiries and produce reports so as to enable community engagement and meaningfully inform parliamentary debate. This is particularly important where a Bill raises major human rights issues, limits or intrudes on human rights significantly, or is developed hastily.
- Have an adequately resourced secretariat with the requisite human rights law experience and expertise.

Statements of compatibility

The Human Rights (Parliamentary Scrutiny) Bill 2010 also requires Ministers to provide a ‘Statement of Compatibility’ to accompany all new bills. This Statement must assess whether the Bill is compatible with the human rights set out in all seven core UN human rights treaties to which Australia is party. The Bill is silent on the nature, scope and detail of this assessment.

If Statements of Compatibility are to fulfil their purpose of “improving parliamentary scrutiny of new laws for consistency with Australia’s human rights obligations and to encourage early and ongoing consideration of human rights issues in policy and legislative development”, they should have the following features:

- Human rights should be considered, and Statements of Compatibility prepared early in the policy development process.
- Statements must include rigorous analysis of the human rights issues and interferences raised by a Bill. Statements of Compatibility should explain limitations in an evidence-based manner which demonstrably justifies the intrusion on rights.
- The detail and length of Statements should be commensurate with the human rights implications of the proposed legislation.
- In considering the scope and content of the seven core human rights treaties, ‘proper consideration [should] be given to international human

rights law and the judgments of domestic, foreign and international human rights courts, bodies and tribunals’.

- This would encourage and enable both policy-makers and parliamentarians to draw on extensive and illuminating international and comparative human rights jurisprudence.
- Statements of Compatibility should be tabled with the Second Reading Speech and Explanatory Memorandum of a Bill and also included in Hansard. This will ensure that they meaningfully inform parliamentary dialogue and debate and are accessible to the public.

Review of legislation, policies and practice

The framework contains a significant commitment to review existing “legislation, policies and practice for compliance with human rights” standards. Priority should be given to amending those laws and practices which have been the subject of UN treaty body recommendations, together with the Human Rights Consultation Committee, the Australian Human Rights Commission and reputable human rights organisations, including

- Anti-discrimination legislation, policies and practices; national security laws, particularly those relating to control orders, preventative detention, and the powers of ASIO
- Legislation providing for immigration detention, offshore processing, and the rights of refugees and asylum-seekers, and
- The Northern Territory Emergency Response legislation.

Harmonisation and consolidation of Commonwealth anti-discrimination laws – or a sweeping new Equality Act?

Equality is a pre-eminent Australian value and the bedrock of a fair, cohesive and productive society. Some of the most pressing social issues of our time – including Indigenous disadvantage, violence against women and poverty – are both causes and consequences of inequality. Prime Minister Rudd recognised that inequality contributes to “poorer educational results, lower productivity, worse health outcomes, shorter working lives and lower workforce participation.”

The law can and should play a central normative and educational role in advancing equality for all Australians. This requires a shift away from an outdated and ineffective complaints-based, remedial model of anti-discrimination laws. Australian law should promote a rights-based model of substantive equality which emphasises equal outcomes and addresses structural causes of inequality. For over 20 years detailed, high-level reports have recognised the significant shortcomings of our anti-discrimination laws and called for greater legal protection of equality.

These include that they:

- Are reactive and complaints-based
- Fail to actively promote equality or address systemic discrimination
- Do not address all grounds of discrimination or multiple discrimination, and are ineffective in areas that have been granted permanent exemptions

The Government's Human Rights Framework commits to "harmonise and consolidate Commonwealth anti-discrimination laws to remove unnecessary regulatory overlap, address inconsistencies across laws and make the system more user-friendly." The so-called 'Consolidation Project' will be an opportunity missed if it is restricted in scope to issues of regulatory overlap and inconsistencies.

A new Equality Act: A robust and comprehensive legal framework which promotes real equality and addresses all grounds of discrimination

The Consolidation Project provides a unique opportunity to modernise and strengthen our anti-discrimination regime. The Federal Government should use this opportunity to consult on and enact a single, comprehensive Equality Act to:

- Ensure that our equality laws meet the standards enshrined in the international human rights treaties to which Australia is party
- Proactively and progressively contribute to a fairer Australia by requiring the active promotion of substantive equality

- Adopt a legal framework that not only prohibits individual instances of discrimination, but also provides for a positive duty to prevent discrimination, and
- Ensure that equality is linked to governmental and administrative decision-making, performance management and accountability frameworks.

A single, comprehensive Equality Act should:

1. Create a legal right to substantive equality
2. Provide comprehensive coverage through a non-exhaustive list of protected attributes – Commonwealth anti-discrimination law currently only prohibits discrimination on the basis of age, sex, race and disability
3. Reverse the onus of proof in discrimination cases. It is notoriously difficult to prove discrimination. If the complainant has made out a prima facie case that discrimination has occurred, the onus should be on the respondent to show that the conduct complained of was justified
4. Provide mechanisms to identify, target and address systemic discrimination. Under the new Victorian Equal Opportunity Act 2010, for example, the Victorian Equal Opportunity and Human Rights Commission has the power to issue guidelines, conduct education and research, and conduct investigations and public inquiries into serious instances of systemic discrimination
5. Provide for representative complaints. This would recognise that much discrimination is not individual but systemic in nature
6. Provide for temporary special measures to promote equal opportunity – this would enable positive steps to address structural disadvantage, and
7. Remove permanent exceptions that do not meet human rights standards of reasonableness and proportionality. Current anti-discrimination laws contain anachronistic carve outs, such as for clubs and religious groups, that automatically trump the right to equality without assessing the reasonableness, necessity and proportionality of doing so in any given case

8. Create the machinery for the measurement and transparency necessary to recognise and address inequality and provide an evidence base for further action – poor data makes it extremely difficult to effectively identify and address inequality. All public bodies should be required to publish annual equality reports.

The strongest legal mechanism to promote the right to equality in Australia is a Constitutional guarantee of equality. Constitutional entrenchment would have significant symbolic effect and ensure that the government cannot easily amend or overturn the right to equality simply by passing legislation. Reflecting this, the federal Equality Act should include a provision mandating that, after four years of operation, an inquiry be held into a constitutional amendment aimed at enshrining the right to equality.

Human rights education

The new framework is said to prioritise human rights education. While \$12.4 million has been allocated over four years to give effect to the report's recommendation that "human rights education be the highest priority", the effectiveness of such measures will be substantially reduced without a robust enabling framework in the form of a comprehensive, judicially enforceable Human Rights Act. Evidence clearly establishes that human rights legislation and education are complementary and mutually reinforcing and that there is both a causal and consequential link between the legislative protection of human rights and the extent and effectiveness of human rights education.

Reflecting this, a recent Australian Public Service Commission report which discusses the importance of regulation, among other policy instruments such as education, in effecting cultural and behavioural change, found that:

“Ad hoc, piecemeal action can have some impact but it is significantly more limited than a carefully planned, comprehensive, long-term approach encompassing education and information, legislation and restrictive measures. The comprehensive approach takes action in a range of areas using a range of policy tools. The effectiveness of the whole package is significantly greater than the sum of its parts.”

The report further found that legislation can and should play a critical role in effecting cultural and behavioural change.

BACK TO THE CROSS-ROADS

Effectively implemented, the new Human Rights Framework will enhance community understanding of rights, strengthen parliamentary human rights scrutiny, and instill greater respect for human rights in policy making and public services.

We have the opportunity to improve legislative protection and parliamentary scrutiny of rights. The Australian parliament will become the first in the world, for example, to scrutinise all proposed legislation against all of the core human rights treaties. The question is, how effectively and to what result?

We have the opportunity to promote equality and redress discrimination. The Federal Government's proposal to review Commonwealth anti-discrimination laws is an opportunity to move beyond a reactive, complaints-based system and enact legislation which actively promotes substantive equality. It will be deeply regrettable if the review only results in legislative consolidation.

The apology to the Stolen Generations two years ago displayed the power of bold, responsible political leadership and the ways in which a commitment to fundamental human rights and the alleviation of disadvantage can unite us. We should now unite around a Human Rights Act and a new Equality Act.

“Long working hours for some, and low-paid casual work for others, combined with lack of access to affordable high quality childcare, makes for much hand wringing around Australia’s kitchen tables.”

Work and care

By Elizabeth Hill & Barbara Pocock

THE PAST THREE ELECTIONS have seen work and family issues emerge as increasingly important areas of policy contest. Australian families are animated about the difficulties they face reconciling their work commitments with family responsibilities. Long working hours for some (mostly men), low-paid casual and part-time work for others (mostly women), combined with a lack of access to affordable high quality childcare makes for anxious parents and much hand wringing around Australia's kitchen tables. Work/life issues have become a 'barbecue-stopper' – as John Howard termed these issues in 2001. As political pressure has grown, there have been important changes made to work and family policy in recent years. But the issue has not diminished in importance and many areas of public policy require urgent attention if we are to develop a truly equitable work/care regime that is a good fit with the changing nature of work and family in Australia.

Australia requires a robust work/care regime. In the lead up to the 2010 federal election the Work + Family Policy Roundtable has identified some of the pathways that will lead Australia towards a better, more supportive work/care regime. As in the 2007 election, in 2010 the Roundtable published a set of *Election Benchmarks* against which assessments of election policy proposals could be measured. In 2010, our priorities for discussion and policy development include: more accessible, affordable, quality childcare; flexible working policies to better support carers; improvements in paid parental leave; fair work, fair workplaces and gender pay equity; workforce participation and the tax transfer system, and; superannuation and retirement earnings.

MORE ACCESSIBLE, AFFORDABLE, QUALITY CHILDCARE

Childcare was a hot political issue in the lead up to the 2007 federal election and is a policy area that has seen much activity. Since then, the Rudd-Gillard Labor Government increased the childcare rebate paid to parents to 50 per cent of out-of-pocket expenses up to an annual cap of \$7,500 per child, promised to build 260 new childcare places on school and community land, and committed to delivering 15 hours of free pre-school to all Australian four year olds by 2013. Not all has been delivered. Only 38 new childcare centres were built before the plan was abandoned; the cost of childcare has continued to increase, largely in line with the rebate; the shortfall in childcare places for 0-2 year olds is an ongoing issue; and parents in the main cities continue to report very long waiting times for appropriate and accessible childcare. The demise of ABC Learning (Australia's biggest private provider of commercial childcare), its

transfer to a non-profit consortium that took control of 570 centres, and the closure or sale of the remaining centres, caused havoc for many families and showed that for-profit childcare was prone to market failure, just as many had predicted.

While not all policy activity on the childcare front has been positive, childcare has become an important feature of the political and policy agenda. A long term commitment to delivering high quality childcare is reflected in the National Quality Framework for Early Childhood Education and Care (ECEC) due to be progressively implemented from July 1st 2010. The framework agenda aims to improve the quality of the 0-6 years experience by:

- Improving the training level of ECEC teachers and staff
- Providing the first national curriculum framework for early learning
- Improving staff to child ratios, and
- Consolidating quality measures and regulation across the country.

Low staff-to-child ratios are a critical determinant of high quality care and there is an urgent need to deliver this improvement to Australian children and parents. Ratios of 1:3 for 0-2 year olds; 1:6 for 2-3 years; and, 1:10 for 3-5 years are recommended. But lower ratios are not easily delivered and will require extra funding to employ more teachers. Higher demand for early childhood teachers will also be driven by the government's goal to provide 15 hours of preschool per week to all Australian four year olds, delivered by a four-year trained university teacher in an accredited pre-school centre by 2013.

Attracting and retaining sufficient trained teachers is expected to be difficult unless significant improvements in the work conditions (especially pay) and training levels of ECEC teachers are made. As most early childhood teachers are now also qualified for primary schools, it is difficult to attract them to lower pay and longer hours in early childhood centres. Low wages and insufficient training for most other ECEC staff make employment in the sector unattractive and unsustainable for many. University level trained teachers should be used across the services, not only for the four-five year olds. However, this would also raise costs and require higher subsidies to keep services affordable. Employment of more trained teachers across the ECEC sector is important, along with appropriate training and skill development and recognition in the sector more broadly.

POLICY CHALLENGE #1: Attracting, training and retaining Early Childhood teachers

- ECEC teachers must be remunerated at the same level as their colleagues in the mainstream primary school sector
- Reducing HECS for ECEC teacher training students and those upgrading from a three to four year degree could help to make ECEC training a more attractive option
- Higher wages, better work conditions and training will together enhance the status of ECEC workers, their longevity in the sector and the quality of care they are able to offer

Affordability of childcare remains a vexed issue. The 50 per cent childcare rebate is politically popular and initially made formal centre-based childcare more affordable for parents. However funding support made via cash payments to parents has a number of limitations. First the payment is not linked to the delivery of high quality care, raising a question about appropriate use of public money. More importantly, payments made to parents are likely to reduce the cost of childcare only in the short term. Over the longer term, centres are easily able to raise their daily fee to 'absorb' the government subsidy, ultimately pushing prices up. A better approach to improving affordability and quality would be for government support to be paid directly to childcare centres that meet quality benchmarks and other conditions. It should also be combined with the child care subsidy.

POLICY CHALLENGE #2: Change the rebate

Government payments should be made directly to centres that meet quality benchmarks and other conditions, and not parents. This will support improved availability of affordable, high quality childcare and break the rebate-fee rise cycle. The payments should be combined with the current fee relief payments for simplicity and equity

FLEXIBLE WORKING POLICIES TO BETTER SUPPORT CARERS

A growing body of international research shows how policies that give workers more say over their working time arrangements to accommodate their care responsibilities improve the well-being of workers and their households. Such policies are often best made available to all workers – men and women, young and old, those with and without current care responsibilities – because they

increase workers' general acceptance of such arrangements, enhance gender equality and facilitate a life course approach to workplace policies.

Since 2007 there have been significant improvements in the support for Australian working carers that are available to men as well as women, including:

- (1) The right to request flexible working arrangements as National Employment Standard (NES) in the *Fair Work Act 2009* (from January 2010)
- (2) A new duty on employers to reasonably accommodate the parental and carer responsibilities of a wide range of workers (2008 amendments to the *Victorian Equal Opportunity Act 1995*). The federal government also recently announced it will amend the *Sex Discrimination Act 1984* to extend protection against discrimination on the grounds of family responsibilities to men as well as women as well as provide improved protection to carers against unfair treatment as well as dismissal.

These changes will improve the work/care regime for working parents. However, some significant gaps remain and some new problems have emerged. The new 'right to request' is far more limited than similar provisions in the UK or New Zealand because there is no meaningful review of employer refusals to grant requests, and eligibility is limited to parents of pre-school children who have 12 months service. International evidence suggests that the right can be extended without difficulties for business. Indeed the UK government has recently announced it will extend this right to all employees as is the case in the Netherlands and Germany. Extending the right to all employees has benefits: it is simpler for employers to manage, and it can encourage innovation in work organisation and increase workplace acceptance that men as well as women need to be supported to be working carers.

In Australia there is strong evidence that flexibility for some workers is decreasing and for most not increasing. Casual and part-time workers and workers in regional areas have limited access to flexible working arrangements and where they do, carers often achieve flexibility by accepting poorer working conditions and worse work/life outcomes. There is growing concern that the individual flexibility agreements (IFAs) that must be inserted in all new awards and enterprise agreements may exaggerate this trend. For example, employees may have to give up their entitlement to penalty rates or shift to casual work in

order to be able to work the schedules they need to accommodate their caring responsibilities.

POLICY CHALLENGE #3: Flexibility for all

The current right to request flexible working arrangements should be extended in a timely manner to include all carers of children and adults and ultimately all employees in line with international best practise (Netherlands, Germany, UK, New Zealand)

If an employer refuses to grant a request for flexible working arrangements, there should be a robust and transparent system of review. This should be through normal workplace grievance mechanisms covering other National Employment Standards. A refusal should only be allowed where it is reasonable, based on balancing the needs of the employee and employer

To increase access to flexible working arrangements for part-time and casual workers, potentially discriminatory provisions such as 'preferred hours' clauses should be expressly prohibited in individual flexibility agreements (IFAs). IFAs should be lodged with the Fair Work Ombudsman for specific scrutiny, and audited as part of regular industry and sector audits

In Australia, many new mothers switch to part-time work as a specific strategy to reconcile work and care. However part-time work is often of a lower quality than regular full-time employment in terms of award protection and career development opportunities. Some modern awards discriminate against those who work on a less than full-time basis and many workers find themselves sidelined from promotion opportunities and other benefits. Reducing the distinction between the status of part-and full-time jobs should be made a work-family policy target, in particular by prohibiting discrimination on the basis of hours worked to protect those working less than full-time. Policy developments in this area would be facilitated by Australia ratifying ILO Convention 175 on part-time work.

POLICY CHALLENGE #4: Protecting part-time workers

To better protect part-time workers, Australia should:

- Narrow the quality gap between part- and full-time jobs
- Prohibit discrimination on the basis of hours worked

PAID PARENTAL LEAVE

Government legislation passed in June 2010 provides for 18 weeks of paid parental leave at the weekly minimum wage. This is an historic first step which provides Australian working parents, particularly women, with a work-related payment that acknowledges their contribution to the workforce. At present, it is estimated that only a third of Australian working mothers have actually taken some paid maternity leave and just under half of all working women have access to paid maternity leave. Most of these women are in higher status jobs, in the public sector or work in larger firms and in most cases have access to a period of paid leave less than that recommended by the World Health Organisation (16 weeks) or the International Labour Organisation (18 weeks). The new paid parental leave legislation will provide significant improvement to the financial circumstances of most working mothers – particularly those in low-income households and who work for small business who had little or no entitlement to leave with pay. Those with existing entitlements will retain them and be entitled to more. There is, however, more that needs to be done.

The next federal government must establish medium and longer term goals to increase the period of parental leave and the level of payment in line with international best practice. Paid maternity and parental leave for six months or more is common in Europe. In the UK, nine-months is now the statutory minimum. A longer period of paid leave for Australian parents will promote maternal and infant well-being and women's labour force attachment.

A good paid parental leave system will include an independent entitlement for fathers (supporting carers) to increase their opportunity for taking leave. The payment level must also be enhanced where the minimum wage is less than current earnings, to approach earnings replacement levels – as is the case for personal and annual leave. This will deliver economic security to households and promote gender equality between men and women at all earnings levels.

POLICY CHALLENGE #5: Next steps for parental leave

- The paid parental leave scheme should be extended to provide 26 weeks leave in the near future, with 52 weeks as a longer term goal
- When paid parental leave is increased, two weeks supporting carer leave should be introduced on a 'use it or lose it' basis to encourage fathers' participation in caring

- Payment rates for higher income women on maternity leave should be increased to full wage replacement wages, as is the case for personal and annual leave
- Payment of the superannuation guarantee during unpaid parental leave is an urgent goal
- Auditing and enforcement is needed to make the return to work guarantee a reality
- Fair work, fair workplaces and gender pay equity

The *Fair Work Act 2009* introduced a number of provisions with the potential to progress the position of women and all carers in the workforce. Legislative change under the Act removed Australian Workplace Agreements, strengthened the safety net and work and family provisions, prioritised collective over individual bargaining, expanded equal remuneration provisions and increased anti-discrimination regulation. Each of these changes has the potential to improve women's pay and conditions directly or indirectly.

Gender inequity remains a serious problem in Australian workplaces. Since February 2007 the gender pay gap has widened by 1.6 percentage points to 82.6 per cent (for full-time ordinary-time earnings), largely as a result of deterioration in the relative pay of women in private sector employment. There is also growing evidence of a much larger gender pay gap at the upper level of the pay scale.

The *Making it Fair* report released in November 2009 provides a very comprehensive set of pro-active recommendations to improve pay equity and should be used as a guide for government to improve the status of women in the labour market. These could be strengthened by making gender pay equity an explicit objective of the *Fair Work Act 2009*. The impact of the recommendations on women's relative wages must be monitored, with special attention paid to the process of award modernisation, implementation of individual flexibility clauses, multi-employer bargaining in the low paid stream, and equal remuneration provisions. Pay equity must also be considered in enterprise bargaining negotiations and minimum wage adjustments. Establishment of a specialist Pay Equity Unit would assist in the coordination, development and implementation of strategies to address gender pay inequity.

POLICY CHALLENGE #6: Gender pay equity

The government must:

- Act promptly on the recommendations in the House Standing Committee's 2009 Making it Fair report
- Make gender pay equity an explicit objective of the *Fair Work Act 2009*
- Establish a specialist Pay Equity Unit to monitor progress and champion strategies to address inequity

The introduction of greater anti-discrimination protections in the *Fair Work Act 2009* (Cth) will protect workers against adverse action in all stages of employment and not only termination. In addition, the extension of anti-discrimination law across the employment cycle is specifically strengthened for workers with caring responsibilities by the Government's recent announcement that it will extend protections in the *Sex Discrimination Act 1984* (Cth) to cover both direct and indirect discrimination on the grounds of family responsibilities across all stages of work, not only dismissal. This is good news for working carers. However, vigilance is required. In the process of streamlining federal anti-discrimination laws and harmonising federal and state laws, these and other protections provided to workers with caring responsibilities must not be diminished. 'Best practice' federal laws must be used as the model in the streamlining process and employers must be required to provide 'reasonable accommodation' to all protected groups. In harmonising federal and state anti-discrimination laws, the *Victorian Equal Opportunity Act 2010* should be used as the best practice model, imposing a positive obligation on employers to take 'reasonable and proportionate' measures to eliminate discrimination, sexual harassment and victimisation.

POLICY CHALLENGE #7: End discrimination on the grounds of family responsibilities

The government should immediately implement its plan to extend family-responsibilities protections in the *Sex Discrimination Act 1984* to cover both direct and indirect discrimination, across all stages of employment.

The Victorian Equal Opportunity Act 2010 should be used as the best practice model, imposing a positive obligation on employers to take 'reasonable and proportionate' measures to eliminate discrimination, sexual harassment and victimisation.

WORKFORCE PARTICIPATION AND THE TAX TRANSFER SYSTEM

Income support and tax/transfer policies play an important role in shaping work and care patterns. The penalties and rewards embedded in the tax/transfer system influence the choices households make about who works and who cares. OECD analysis points to the importance of appropriate family tax policy to achieving higher female participation.

Current arrangements in Australia distort and depress female participation in paid work. This is partly due to the way in which Australia's progressive individual tax system has effectively become a system of joint taxation that discriminates against partnered women with children who choose to move between care and paid employment. When women re-enter the workforce, family benefits decrease, imposing a high effective marginal tax rate (EMTR) on women as family benefits are withdrawn against both increases in total household income and the income of the second earner. This creates a disincentive for women to undertake paid work, and is acknowledged as a fundamental problem by the recent Henry Tax Review. Changes to the design of some payments and taxes, as recommended by the Henry Tax Review, would remove many of the disincentives to women's workforce participation currently embedded in the tax/transfer regime. The Henry Review recommends simplification of family payments and a reduction in the withdrawal of family assistance at a single low withdrawal rate of 15–20 per cent. Any redesign of the tax/transfer system must recognise and respect most families' needs for financial support for both the direct costs of children and the costs of reduced access to paid work.

POLICY CHALLENGE #8: Tax reform to remove disincentives to women working

Implement Henry Tax Review recommendations for a single family payment (recommendation 90); withdrawal of family assistance at a single low withdrawal rate of 15–20 per cent to minimise workforce disincentives (recommendation 96); and simplification of childcare support payments (recommendation 99).

SUPERANNUATION AND RETIREMENT EARNINGS

Women who undertake significant periods of unpaid work have fewer years of full-time workforce participation, earn lower wages than men and as a result have relatively low superannuation accumulations. An indicative comparison suggests that women's accumulated superannuation in 2007 was worth approximately 60 per cent of men's. Approximately one third of women aged 55-64 years have no superannuation coverage.

Inequality is further embedded through the application of concessional taxation arrangements on superannuation contributions and earnings – valued at approximately \$24 billion for 2008-09. The benefits of these concessions are skewed strongly to favour those on high incomes (typically men) who receive higher employer contributions and can make additional personal contributions that are taxed below their marginal income tax rate. The Henry Tax Review noted that approximately 1.2 million individuals did not receive an income tax benefit from their concessional superannuation contributions; 1.2 million people receive a concession of only 1.5 percentage points and around 200,000 taxpayers earning more than \$180,000 received a concession on their superannuation contributions of 31.5 per cent. Interaction between women's labour force participation, their care responsibilities and the existing structure of superannuation clearly penalises women and leaves many economically vulnerable in old age.

Recommendations made earlier in this chapter that relate to income replacement for paid maternity leave, pay equity, affordable childcare, taxation, and transfers will together contribute to creating a fairer workplace for women and more equitable retirement outcomes for all. However, specific changes to the superannuation system must also be made. The following measures would go some way toward promoting improved economic security for women in retirement.

POLICY CHALLENGE #9: Redress women's superannuation disadvantage

- The Henry Tax Review Recommendation (number 18) on concessional taxation of superannuation should be introduced to ensure equitable distribution of taxation expenditures among low- and high-income earners
- This should occur alongside the complementary measures suggested in Recommendation 19 which addresses taxation on superannuation fund earnings

- The rate of the age pension should also be maintained to reflect current relativities to average earnings
- Recipients of the single age pension who have an earnings history that precluded them from receiving income tax benefits on superannuation contributions and have superannuation balances of less than \$10,000 should receive a retirement top up payment to supplement the age pension

CONCLUSION

Australia's work and family arrangements have improved in some ways in recent years but we have a long way to go. The pace of change in patterns of workforce participation and household shape make a faster and comprehensive response to the current work/care regime a pressing policy issue. Evaluation of change in Australia, including changes to labour regulation, along with careful consideration of lessons that arise from international experience must inform progress in this area. Hopefully the newly-elected Gillard minority Government will recognise the ways in which current arrangements add to the stress of working men and women and their dependents, and accordingly recognising the need to rise to these policy challenges.

“It’s as much
about the rock
band at your
local pub as it is
about the Sydney
Opera House.”

Cultural policy in Australia

By Ben Eltham & Marcus Westbury

POLICY CONTEXT

IN EARLY 2010, more than 15,000 people gathered on Bourke Street in front of Victoria's Parliament building to register their protest against an unpopular government decision. The colourful crowd chanted and marched, sported placards and banners, and listened to speeches by local identities.

What were they protesting about? Climate change? Refugees? The war in Afghanistan?

No, they were protesting about a decision by Liquor Licensing Victoria to enforce onerous security requirements on live music venues in Melbourne. The new regulations had led to the closure of one of Melbourne's best-loved rock venues, a Collingwood pub named The Tote. Many other venues were threatened with the same fate.

This was a protest about cultural policy.

'Cultural policy' is not often thought of as an important topic of public affairs. That's odd when you consider that culture touches on many of the things that Australians do, see, hear and engage with everyday. Watching television, reading a newspaper, playing a computer game, updating your Facebook status, sending a tweet, going to a bar to see comedy, even things like gardening and cooking: all of these activities are explicitly cultural.

"Culture", as English critic Raymond Williams once pointed out, "is one of the two or three most complicated words in the English language." Culture in Australia is no exception. It's simultaneously broad, diverse and multi-faceted. It ranges from the oldest continuous cultural traditions in the world, to be found in the art and culture of Australia's Aboriginal and Torres Strait Islander peoples, to the newest digital forms of cutting-edge expression. It includes the highly trained professionals in our nation's orchestras, operas and dance companies, as well as the 'weekend warriors' who dust off their guitars for a weekly neighborhood jam session. It encompasses some of the most popular types of entertainment media, to be seen on top-rating TV shows like *Masterchef* or *So You Think You Can Dance*, as well as obscure community arts projects and folk crafts. Culture is about learning a foreign language, sharing thoughts, words and images with a friend on Facebook and listening to your iPod on the way to work.

But all too often, when we discuss government policies towards ‘culture’, what we actually mean is ‘the arts’ – and only a small subset of the arts at that. Indeed, when we think about cultural policy in Australia, we often think simply of grants to artists, or government cultural agencies such as the Australia Council, as though these are the principal aspects of government policy towards culture.

In fact, cultural policy cuts across many government portfolios and encompasses a vast swathe of everyday life. It’s as much about the rock band at your local pub as it is about the Sydney Opera House, as much about popcorn during the movie as chardonnay after the ballet. Cultural policy is about what you can and can’t watch on free-to-air TV or view on the internet, whether you can exhibit photos of naked children in an art gallery, or when and where a band is allowed to play.

THE SIZE AND SCOPE OF CULTURE

Culture is all around us. Millions of Australians engage in cultural expressions for their own pleasure every day. For every Hugh Jackman, there are tens of thousands of unknown but passionate artists in hundreds of different artforms, all grappling with the age-old challenges of making art that someone, somewhere will want to experience and engage with. In comparison with this vast cultural universe, the kinds of activities supported by the Australia Council – and by extension that are within the policy brief of government – are a small and dusty room.

One way of taking in the size and scope of culture in Australia is to examine the size of the so-called ‘cultural’ or ‘creative’ industries. These are a far bigger share of our economy than many people realise. The Australian Bureau of Statistics tells us that there are nearly 300,000 Australians working in a cultural occupation as their main job; more than car manufacturing and mining combined. In June 2006, there were more than 77,000 registered cultural businesses contributing a total cultural output approaching \$41 billion. In 2003-04, Australian households spent \$14.6 billion on cultural items like books, CDs and pay TV. Culture is also a big part of our daily lives: watching television is Australians’ most important leisure activity, and the movies are our most popular destination when we go out. More than three-quarters of Australians read for pleasure, while nearly 14 million of us attend a cultural venue or event at least once a year. More importantly, the impact of culture is beyond economics. It’s at the heart of our identity and way of life.

So it's quite a surprise when you realise Australia has no formal cultural policy, and hasn't since Paul Keating's Creative Nation policy of the 1990s. Cultural policy has evolved as an ad hoc series of decisions by governments of all levels. The result is that there is no coherent set of principles to underpin the way our governments at all levels support and regulate culture. Rather, a set of de facto policies has evolved, often haphazardly, which are inconsistent and contradictory.

One of the biggest problems is that the current framework views cultural policy almost exclusively in terms of *arts funding*, rather than the much bigger area of *cultural regulation*. Things such as copyright laws, media regulation and censorship, urban planning and public liability laws that impact upon the viability and diversity of cultural expression are beyond the reach of the current paradigm. Though they have a far greater impact on cultural life than the funding of any individual company or initiative, they are beyond the scope and responsibility of our cultural agencies.

When you look at Australian culture in all its richness, the inconsistency of policy responses reveals the ad hoc nature of the current approach.

For instance, the Australian taxpayer spends hundreds of millions a year supporting Australian films, but not Australian computer games. We enforce some of the most stringent and punitive copyright laws in the world, without examining the costs of these special industry protections to consumers, schools, libraries and the public sphere. State governments promote contemporary music policies ("Victoria Rocks") at the same time as imposing crippling regulations on the live venues that support that contemporary music (such as the laws that shut down The Tote). We create powerful economic incentives to replace live venues with poker machines without any evaluation of cultural consequences. We create regulations such as building codes, zoning and planning approaches without regard to the capital constrained nature of cultural practice. We maintain inconsistent and incoherent approaches to media regulation that means adults can watch an R-rated movie, but not experience similar material in video games, and perhaps soon, not on the internet either.

Another consequence of these inconsistencies is a sustained lack of funding and support of Australia's indigenous cultural expressions. In cultural funding terms, the "great Australian silence" towards the richness and diversity of Aboriginal and Torres Strait Islander cultures, first criticised by anthropologist W.E.H. Stanner in 1968, still continues today. While some of the oldest living forms of

music in the world slowly die out in central Australia, the Australia Council gives more than five times more money to Opera Australia than it does to its entire Aboriginal and Torres Strait Islander Arts Board. Opera is a valuable part of the western tradition. But Australia's indigenous cultures are a unique, rich and valuable set of traditions that are both vulnerable and potentially powerful symbols of Australia around the world.

But our cultural policy debate rarely discusses these issues.

Where do we weigh the balance between expanding the choices and options for media consumers and small producers, rather than the industry protections of media proprietors? Where in debating copyright frameworks do we balance the rights of copyright holders (generally big media companies) with copyright users (generally consumers and public institutions like schools and libraries) in line with the realities of contemporary cultural practice? Where do we weigh the merits of supporting living artists making original new work against the heritage artforms and traditional European genres that we overwhelmingly fund?

THE RUDD-GILLARD GOVERNMENT'S CULTURAL POLICIES

While the Rudd-Gillard Government under former arts minister Peter Garrett did begin the important task of developing a National Cultural Policy, in practice very little has changed since the Howard era – continuing a lineage of *ad hoc* policies and evolving misallocations that stretch largely unbroken back to the Whitlam era.

In developing a national cultural policy and in taking submissions about what it should be, there has been a notable step forward. The Howard Government did no such thing in 11 years in office. However, whether the need to engage comprehensively with the policies that affect culture can be reconciled with a powerful inertia pushing towards a policy that is purely about funding for the arts remains to be seen.

In calling for submissions on a new national cultural policy, Garrett at the very least encouraged us to examine the way things actually work – or fail to work – already. Arts and cultural debates in Australia often devolve into a contest between those opposing government funding, and those seeking to increase it. Cultural regulations are generally ignored. By focusing debate on our current

policy settings, we now have a chance to advance some much-needed options for reform.

Meanwhile, in the absence of a coherent cultural policy framework, much of the cultural policy action has taken place outside the Arts portfolio. In the Communications portfolio, the development of a National Broadband Network promises the largest cultural infrastructure project in the nation's history – despite rarely being described and evaluated as such. Indeed, there appears to be little if any discussion of the cultural impact of the regulatory, technical, economic rules that will govern such a network.

Equally, the proposal to censor the internet through an unworkable mandatory filter is a decision with profound cultural consequences. This \$125 million effort must count as one of the strangest policies of the Rudd-Gillard Government. While the filters are unlikely to prevent predators and pornography, they will have major consequences for freedom of speech and expression. The policy abandons our Western liberal tradition to follow a precedent established by totalitarian countries such as Iran and China. It's hard to think of a more counter-productive policy for Australian culture.

Why the Australia Council needs to be reformed

The Australia Council for the Arts is the Australian Government's dedicated arts policy and advisory agency, so it's a good place to start when we examine cultural policy.

The Australia Council was formed in 1973 by Gough Whitlam's government. It introduced meaningful support for artists and organisations working in artforms such as theatre, dance, visual arts and literature for the first time.

Unfortunately, the Australia Council's structure and artistic focus has changed little since the 1970s. In this time, driven by new technologies such as the internet, art and culture has changed radically.

The result is that the Australia Council is increasingly irrelevant to culture today. The act under which it operates defines both what culture is and how it should be administered in ways that are hopelessly out of date. For example, the Australia Council has had little meaningful engagement with digital and new media arts, social networking, or gaming. In a decision driven by internal bureaucratic politics, the Australia Council abolished its New Media Arts Board in 2005.

In a tale familiar to students of public policy in other spheres, the

Australia Council has also been 'captured' by the arts organisations it funds. Although it contributes small but significant amounts of funding to smaller companies and individual artists, the Australia Council now exists largely as a conduit to funnel money to a small number of large, privileged arts organisations. Its supposedly important functions of peer-review, advocacy and arms-length policy analysis have withered away to almost nothing. In monetary terms, the majority of the grant dollars it distributes are not peer-reviewed at all.

The Australia Council is the cultural equivalent of the National Trust. For instance, while the Australia Council devotes approximately \$90 million to music funding, only two per cent of this goes to jazz, rock, pop and other contemporary forms of music. The heritage aspect of the current Australia Council's role is an important function. But it should not be at the centre of cultural policy. We desperately need a planning and development agency whose primary concern is contemporary cultural dynamics, opportunities and developments, and not merely heritage preservation.

THE PROBLEM:

The need for a holistic approach to culture

We are a long way from a joined-up approach to culture across and within Australian governments. In fact, Australia's cultural policy is hopelessly fragmented across many agencies, leaving great gaps.

A glance at the way screen and broadcasting policy is handled in Australia illustrates this point. Australia's federal Arts portfolio under Peter Garrett includes Screen Australia, the national film and television development agency. But Screen Australia plays no role in screen and broadcasting regulation, which is governed by the Australian Communications and Media Authority, part of the Department of Broadband, Communications and the Digital Economy. Copyright law and the Australian Classification Board are the province of the Attorney-General's department. Digital content innovation and R&D is under the purview of a fourth department, the Department of Innovation, Industry, Science and Research. University film schools such as the Victorian College of the Arts are the responsibility of the Education Department. Film festivals are generally funded by state governments. The permits and regulations for film-makers wanting to shoot in a particular location are imposed by local governments. There is no national screen policy that seeks to join up all these

dots. Indeed, as film and video production becomes more decentralised, many screen-based practitioners are working in areas such as online video, gaming, and non-broadcast based media that have little or no engagement with, nor are consulted, by any of these agencies.

Australia's cultural agencies were largely devised when the number of places in which cultural production and distribution took place was small and relatively fixed. At their core they are still rooted to the idea that a small number of elite artists produce and present large-scale culture through major institutions based on a classical European model or – in the case of film – major commercial producers and distributors.

In contrast, society is becoming more culturally diverse. Immigration, demographic change and new technologies and communications media have transformed the spectrum of cultural choices available. The large-scale infrastructure and mass subscription model that underpins the logic of many funded arts organisations is poorly equipped to respond to the plethora of new artists, artforms, audiences, genres, and sub-cultures emerging in a rapidly changing cultural dynamic.

The lack of engagement with cultural regulation in the music industry illustrates the counter-productive consequences of this disconnect. In Victoria, the state government has a specific policy for supporting contemporary music called “Victoria Rocks”, administered by Arts Victoria. Contemporary music is largely performed in small, commercial venues such as pubs, clubs and bars – and the proliferation of niche genres, markets and audiences is creating even greater demand for smaller venues. Yet these same venues are closing in response to tighter regulations from another part of the Victorian government that deals with liquor licensing. Nationally, the need to create viable small scale cultural venues – for music and other creative forms – is clashing with policies that are fostering denser urban planning, expanding numbers of gambling venues and poker machines, and requiring capital intensive building codes. Despite the Australia Council's own research demonstrating that contemporary music is much more valued than the orchestras and opera companies that it overwhelmingly funds and focuses on, neither Arts Victoria nor the Australia Council have engaged substantially in these debates.

Our funding-centric approach to culture largely ignores these issues, yet federal issues such as tax, social security compliance, copyright and media policy, state

issues like liquor licensing and public liability law, and local government issues like noise laws and urban planning are key cultural policy questions. There has been little or no effort by the Commonwealth or the states to try and adopt whole-of-government policies towards culture. As a result, much government cultural funding is wasted, and the practical needs of most artists, small organisations and even entire cultural industries (such as the design industry) are falling through the cracks.

Case study: Creating space for artists to be creative

One of the biggest problems for artists, who typically have low incomes, is finding affordable space from which they can create, distribute and present their work. While a prolonged property bubble has driven up rents and exacerbated this problem, there are still many spaces within Australian cities that sit empty. In late 2008, the Renew Newcastle scheme was established in the regional New South Wales city of Newcastle to take some of the 150 otherwise vacant commercial spaces in that city and make them available to artists, creative enterprises and community groups. To date, the initiative has placed more than 50 artists in shops, offices, studios, and galleries. In doing so, it has revitalised a once empty city centre and seeded a series of creative initiatives, both commercial and not-for-profit. It is a model for facilitating low-cost decentralised cultural production that other cities such as Cairns, Townsville, Adelaide and Geelong have begun to emulate.

While the scheme has been a success, it is also a case study in the lack of responsibility for cultural regulation at a national level. The very presence of empty spaces in many cities is a product of both market failure and government regulation: many buildings sit vacant due to complex tax laws and planning regulations that provide strong incentives to owners to leave buildings vacant. As a result, flexible access to these spaces for artists and creators is essentially a policy setting – even if it is not an artform-specific funding issue.

Unfortunately, under the current model, there is no capacity for meaningful engagement with the Federal Government around these issues. The Australia Council's ambit to fund or support culture is defined in the dated, art-form specific cultural responsibilities defined by its 1970s era legislation, and cultural practitioners who work in ways that don't fit into this model have no place in such a structure. Further, because the Australia Council is also the national cultural policy advisory agency, these artists and their issues are not represented in the Australia Council's policy advice.

ICONIC INSTITUTIONS OR STARVING ARTISTS?

Spare a thought for the people who make Australian culture happen: the artists. The debate about Australian culture often ignores the great achievements of the individuals who create it.

In 2003, economist David Throsby released an in-depth report into Australian artists' incomes. The title of the report, *Don't Give Up Your Day Job*, says it all. The report found that the mean creative income for an independent artist working in Australia was only \$17,000 per annum (the average annual wage in Australia in 2003 was about \$52,300). But in that year, the Australia Council distributed just 6.3 per cent of its grant funding to independent artists. The remaining 93 per cent went to organisations. A recent, comprehensive survey of Australian arts funding commissioned by Arts Queensland found that "grants to individual artists to make work are estimated to be fewer than five per cent of all arts funding."

As folk wisdom suggests, choosing the arts as a career can still mean a short road to relative impoverishment. Most artists and creative workers take a huge pay cut just to work in their chosen field of employment, and as Throsby found, nearly all of them need an extra part-time job or two just to survive. Of course there is not necessarily anything wrong with this: people like nurses and teachers choose professions that reward them in non-financial ways all the time.

But the huge imbalance of funding between artists and organisations is the result of a long-term decline in direct funding for Australian artists and creative workers that has damaging consequences for the Australian creative economy. In the absence of direct public sector funding for artists undertaking primarily creative work, the balance of arts funding goes towards administrative positions within funded organisations. The unquestioned assumption that large companies and fixed institutions are at the centre of cultural life has placed the management and maintenance of such organisations at the centre of cultural policy concerns and government expenditure.

In this era, such an approach is neither effective nor efficient. Despite their bohemian reputation, individual artists can often be highly efficient, as they are excellent at leveraging and making the most of scarce resources. They can also be flexible and capable of building appropriate structures and mechanisms to create, present and promote individual shows or projects. Their way of

operating allows for small-scale experimentation, innovation and risk taking. Individually and collectively, they are highly responsive to technological change, changes in audience dynamics, and the decentralised environment of cultural creation and consumption. They require little in the way of expensive infrastructure. By contrast, the highly-centralised structures in which we invest most of our cultural resources have high overheads and are often conservative, risk-averse and place comparatively little value on experimentation or the creation of new work.

Individual artists (especially non-famous ones) are the forgotten voice in the Australian cultural debate, even while they provide the bulk of the workforce for our cultural endeavours. It's high time Australia re-balanced its cultural investments and regulations away from big buildings and big corporations, and towards the creative human capital of the cultural sector. At stake is not the future of artistic achievement in Australia – for artists will always create, no matter their economic circumstances – but the ability of Australian creators to tell their own stories, and create for their own communities.

A new cultural agency for contemporary Australian culture?

The reliance on the Australia Council as the primary agency for cultural policy is inherently unsustainable. Australia needs a new government cultural agency with a contemporary brief: to ensure that we are a nation that is a creator and not merely a consumer of culture, and that Australians are active and enabled participants in the increasingly globalised cultural pool.

The brief should be primarily cultural, not economic – but must recognise that culture has an economic component. Culture is ethereal and beautiful, but it is also subject to market forces, and can bring great economic benefits.

Such an agency needs to work beyond the funding paradigm, to ensure the tax system, intellectual property law, social security regulations, compliance costs in the built environment and other policy areas take into account the needs of contemporary cultural production. It needs to ensure that contemporary Australian culture is funded and resourced at least as well as heritage arts, and that these policy priorities are elevated to at least the same level.

The key policy goal should be primarily concerned with the creation and promotion of contemporary Australian culture – in all its diverse forms. To do this, we must recognise that most Australian artists and creators do not work for or in large funded arts companies, and that therefore we need

to promote policies that support and respect this reality.

One of the ambits of this agency should be to review and make recommendations on Australian industry and market regulations for the cultural industries, from a cultural as well as an economic perspective. The design of cultural markets, the rules and regulations that govern them and the incentives that they provide are often created by government, and have profound cultural consequences that no agency is currently charged with addressing. This role should not necessarily lead to public subsidy for commercial markets or protectionism, but it should recognise that the market fails to support many artforms – not just orchestras and arts centres.

The false divide between “high art” and “popular culture”

Cultural policy has long been bedeviled by a false distinction between what is sometimes called ‘art for art’s sake’, and for-profit cultural products created by the entertainment industries. Public funding for the so-called ‘high arts’ is often justified by the artistic merit of artforms such as literature, theatre or orchestral music, and by the supposed inability of these arts to exist if left to the workings of the free market. In this world view, government support for popular culture is often frowned upon as a “dumbing down” of standards, and in any case unnecessary, because the market already provides these products.

In the real world, this is a false divide. The ‘high arts’ can often be boring, unoriginal and pretentious, while so-called ‘popular culture’ can display high standards of creativity, originality and artistic craft – and vice-versa. Similarly, heritage artforms such as Wagnerian opera or Shakespearean theatre can be immensely popular and highly remunerative, while many types of popular culture can be very unpopular indeed.

In developing a new cultural policy, the age-old dialectic of ‘high arts’ versus ‘popular culture’ should be abandoned. Artworks are not good or bad just because they are popular or unpopular, and valid and original work can be found in every artform and genre.

FIVE POLICY SOLUTIONS

1. Recognise that ‘cultural policy’ is about more than funding for the arts.

It's about policy frameworks across government including media policy, education, copyright and censorship law, tax, urban planning, liquor licensing and R+D.

2. Abandon the false divide between high art and popular culture.

Art and culture of all different genres and types can be popular or unpopular, and good or bad. Cultural policy should not be based on preconceptions about which artforms are ‘worthy’ of public support, but on cultural values that can manifest themselves in many ways, across many forms and genres.

3. Create a new cultural agency for contemporary Australian culture.

Australia needs a new government cultural agency with a contemporary brief: to ensure that we are a nation that is a creator and not merely a consumer of culture, and that Australians are active and enabled participants in the global cultural pool. The Australia Council is not an organisation capable of this, or of becoming this.

4. Cut the red-tape that affects culture.

Many artists and cultural organisations are constrained by access to appropriate infrastructure, like venues and work space, as well as capital. The ability to put in place policy settings that allow them to perform, present and produce with limited capital is more important (and effective) in ensuring their success than direct subsidies.

5. Fund artists and production, not institutions.

Ordinary working artists are the forgotten people of Australia's cultural policy debate. Their average income is well below median Australian wages. Yet individual creators and artists are the life-blood of Australian culture. Where new funding is created, it should be directed towards individuals and small companies – not large institutions. And because so many artists are so poor, small amounts of funding can go a long way.

“Indigenous policy needs a complete rethink. Current approaches are running contrary to the evidence of what works.”

Closing the evidence gap

By Larissa Behrendt

THE STORY SO FAR

THE NATIONAL APOLOGY delivered in federal parliament by Prime Minister Kevin Rudd on February 13th 2008 appeared to signal a major transformation of Indigenous policy in Australia. Defeated Liberal Prime Minister John Howard had tenaciously refused to make this elementary gesture. Indeed his prime ministership was marked by a rejection of the reconciliation process that had begun in the Hawke/Keating era. His antagonism towards any recognition or protection of Aboriginal rights was almost visceral.

The apology together with the endorsement of the United Nation's 2007 Declaration of the Rights of Indigenous People immediately differentiated Rudd's Indigenous affairs policies from those of Howard's. Like the apology, the Howard government opposed the Declaration, refusing – along with Canada, New Zealand and the United States – to become a signatory because of ideological problems with both the concept of the Declaration and its content, especially its recognition of the right to self-determination.

These symbolic gestures raised expectations that the Labor government would aggressively tackle Aboriginal disadvantage – that the symbolic shift would be matched by actual improvements to the material circumstances of indigenous Australians. Rudd nurtured encouragement of this expectation in his apology speech: “unless the great symbolism of reconciliation is accompanied by an even greater substance, it is little more than a clanging gong. It is not sentiment that makes history; it is our actions that make history.”

It is therefore surprising and disappointing that the key Indigenous affairs initiatives and assumptions of the Rudd-Gillard Labor Governments were inherited from Howard's. These include the quarantining of welfare for Aboriginal people; the belief that home ownership by itself can reduce poverty; the view that private schools offer a panacea for poor education levels amongst Aboriginal children; the suspicion of Aboriginal control over land; and the granting of land tenure through leases to the government and through conditional access to public housing.

Combined with the continuation of the Northern Territory intervention – perhaps the most concerted attempt to implement the above policy vision – the Rudd- Gillard Governments have furthered an agenda that was designed by the Coalition.

Closing the evidence gap

As the Northern Territory intervention demonstrates, this agenda is top-down (designed in Canberra and implemented with little or no consultation or engagement with Indigenous people, their organisations or their communities), is influenced by tired ideology (mainstreaming and assimilation – approaches that have been tried before and failed), laced with the self-righteousness of paternalism (“we just care about women and children”) and clearly discriminatory (given that the *Racial Discrimination Act* had to be suspended in order to implement the policy).

Fast facts: impact of the Northern Territory intervention

The most recent whole of government report monitoring the situation in the top end, covering the period from January to June 2009, showed that:

- Child malnutrition is up despite the 85 licensed stores, the 15,000 BasicsCards and \$200 million worth of income managed funds
- Total enrolments and school attendance rates are marginally lower
- Alcohol, drug and substance abuse incidents, domestic violence related cases and breaches of domestic violence orders have all increased despite a far greater police presence

Source: Closing the Gap in the Northern Territory 2009

THE REFORM AGENDA: Closing the gap

Aboriginal and Torres Strait Islanders have shorter life expectancy, lower levels of education, higher levels of unemployment, and are more likely to live in poverty and to live in an overcrowded house than other Australians.

New 2005-2007 experimental figures from the Australian Bureau of Statistics calculate life expectancy at birth of Aboriginal and Torres Strait Islander Australians at 67.2 years for men and 72.9 years for women. These figures are well below the 82.6 and 78.7 year average for non-Indigenous females and males respectively, for the same period and create life expectation inequality gap of 9.7 years for females and 11.5 years for males.

Approximately 30 years ago, life expectancy rates for indigenous peoples in Canada, New Zealand and the United States of America were similar to the rates for Indigenous peoples in Australia. However, significant gains in life expectancy have been made in the past two decades in the indigenous populations in

Canada, New Zealand and the United States of America. Comparable mortality rates for Aborigines and Torres Strait Islanders in 1990-1994 were at or above the rates observed 20 years ago in Maori and Native Americans, being 1.9 times the rate in Maori, 2.4 times the rate in Native Americans, and 3.2 times the rate for all Australians.

Indigenous people have lower levels of education than non-Indigenous Australians. 49.9 per cent of non-Indigenous Australians have no non-school qualification compared with 71 per cent of Indigenous Australians.

The Rudd-Gillard Labor Governments have adopted the rhetoric of “closing the gap” to describe their aspiration for achieving socio-economic equality for Aboriginal and non-Aboriginal Australians.

The positives

Overall, there are many positive aspirations in the rhetoric of this reform agenda. These include aims to:

- Increase the literacy rates of Aboriginal and Torres Strait Islander children and to improve levels of their school attendance;
- Improve the health of Aboriginal people;
- Reduce violence and sexual abuse of Indigenous women and children.

But there is a gap between these aspirations and results on the ground. And there is a gap between the government’s rhetoric of wanting to take an “evidence based” approach and its actual policies.

The barriers

Some of those barriers to achieving equality for Indigenous people under the current policy framework include:

- **The limited definitions of “closing the gap”.** The areas targeted by the government in its report card are narrow. Australians for Native Title and Reconciliation (ANTaR) have pointed out that there are serious flaws in the broader strategy, in particular, overlooking evidence of what works, including key determinants of health inequality and disadvantage critical to achieving its closing the gap targets and not working in partnership

with Indigenous people to develop or implement its closing the gap strategy.

- **Funding interventions instead of facing the underlying issues.** Indigenous policy is always targeted at intervention, at emergency. It rarely seeks to look at the underlying issues. Addressing disadvantage requires long term solutions, not just interventions. Rather than always reacting to a crisis, a long-term sustained approach requires addressing the underlying causes of disadvantage. This means resourcing adequate standards of essential services, adequate provision of infrastructure and investment in human capital so that communities are developing the capacity to deal with their own issues and problems and have the skill sets necessary to ensure their own well-being. There are no short-cuts, quick fixes or panaceas. Whatever the perceptions of the electorate, the fact is that there is not enough money spent on Aboriginal housing, education and health. The pot is too small and no government will fix the problems while all they do is engage in trying to redirect the scarce resources towards one pressing need at the expense of others.
- **Focus on remote communities.** Much of Indigenous policy is targeted at remote communities – resources too. Look at where the previous government and the current government are directing resources for social housing and you will see it is primarily focused on remote communities. Yet the largest Aboriginal communities do not live in remote areas. They live in cities. The largest is in Western and South Western Sydney with 28,065 Indigenous people. And on the recent Australian Bureau of Statistics figures it is one of the most socio-economically disadvantaged communities in the country, more disadvantaged than many of the Aboriginal communities being targeted by the federal government.
- **Ideology over research-based approaches.** Indigenous affairs is full of ideologies. These include the ideologies of assimilation and mainstreaming, the newer ideologies of mutual obligation and shared responsibility, and the ideology that communally-held land is bad – if it is held by Aboriginal people – and should be unlocked so that non-Aboriginal people can access it. An example of the ideological approach in action is the policy of quarantining the welfare payments of parents of Aboriginal children who do not attend school. There is no evidence that shows that linking welfare to behaviour reforms is effective.

- **Failure to engage in a robust policy debate.** When the Northern Territory intervention was first rolled out in June 2007, the Howard Government silenced critics by accusing anyone who didn't support all of the measures of 'protecting' paedophiles. Once in office, the Labor government has done much the same. Rational policy debate over whether these policies are effective is avoided by the repetitive deployment of phrases such as "we just care about women and children" or mealy-mouthed assurances that "we are committed to closing the gap."

MYTHBUSTER: The Northern Territory Intervention has led to an increased consumption in fresh food

Jenny Macklin, Minister for Indigenous Affairs, claimed she had evidence that the intervention was increasing the consumption of fresh food because more was being sold through community stores. When questions were asked in Senate estimates about how these claims were substantiated, it was revealed that the basis of the evidence Macklin relied on was a survey of ten phone-calls to community stores asking whether there was an increase in fresh food sales. Six said "yes", three said "no" and one said they "didn't know." While properly conducted phone surveys have a time and a place, it was patently clear that more complex questions needed to be asked. For example, who was buying the food? Was it the indigenous peoples whose income was quarantined? Or was it the army and coterie of public servants brought in to roll the intervention out?

Subsequent longitudinal studies conducted by the Australian Indigenous Doctor's Association (AIDA) and the Menzies School of Health Research demonstrate that there is no evidence of an increase in consumption of fresh food or that income quarantining is working. In fact, AIDA concluded that the documented harms greatly outweigh any of the few benefits cited by the government.

The Labor government's racially discriminatory approach to Aboriginal policy is most clearly seen in the area of housing, a policy cornerstone of the Northern Territory intervention which has in turn been championed by Macklin.

The evidence likewise suggests that the intervention is failing to improve other key measures of child welfare. Sunrise Health Service in the Katherine area has been collecting data since before the intervention. Its data indicates anaemia rates in children under the age of five have jumped significantly since the Intervention. From a low in the six months to December 2006 of 20 per cent—an unacceptably high level, but one which had been reducing from levels of 33 per cent in October 2003—

by June 2008 it had reached 55 per cent. Those results equated with early childhood anaemia levels in Iraq and Zambia; and are worse than Zimbabwe, Pakistan, Bangladesh and Algeria.

POLICY IDEAS

IDEA #1 – A non-discriminatory housing policy

The policy on Aboriginal housing reflects the discriminatory assumptions that run through federal Aboriginal policy-making. Until the 2010 election, housing in the community sector was the responsibility of then Federal Minister for Housing, Tanya Plibersek, whilst Aboriginal community-owned housing fell under Macklin's ministerial responsibilities. Macklin argued that Aboriginal communities would benefit from the 'strong regulatory framework' provided by the state and territory government agencies in relation to the provision of housing.

By comparison, Plibersek was more sceptical of the ability of public housing authorities to deliver, as reflected by her remark that, "We are often not delivering opportunities for public housing tenants; 90 per cent of stock is held by eight government providers; and our system is not transparent or accountable." She also spoke supportively of what she thinks community-based housing organisations can provide: they are good at tenancy management, often have lower rates of rental arrears and possess better track records at maintenance than state housing authorities.

There is an important ideological difference here. Plibersek supported the transfer of the title of public housing from state and territory housing authorities over to the community housing sector so that they can provide housing. Macklin has a completely different attitude. She insists that the title of the land on which community housing is built must be transferred from the Aboriginal community to state housing authorities through a long term lease (from 40 to 99 years). Housing is then delivered by government housing authorities (the same ones that Plibersek described as "not transparent or accountable") and the release of monies is contingent on communities leasing their land back. Yet this is the housing policy to which Macklin has adhered as part of the Northern Territory intervention.

There is more than just ideology at play, however. Fundamental practical questions have been asked, since the \$680 million housing program in the

Northern Territory did not deliver one new house in the space of 18 months. The 2010 budget papers reveal that seven houses were finally built under the program after two years. Warlpiri Elder, Harry Nelson Jakamarra, had this to say on the matter: “The Intervention housing program has not built any new houses at Yuendumu. We are just being blackmailed. If we don’t hand over our land we can’t get houses maintained, or any new houses built. We have never given away any Warlpiri land and we are not going to start now.”

Ampilatwatja is a town three hours from Alice Springs. It was taken over with a five-year lease that came with the promise of new housing. The housing stock was transferred to Northern Territory Housing. No new houses were built and much needed repairs did not take place. By July 2009, the town was overflowing with raw sewerage. A plumber was supposed to be on his way but his truck broke down, or so the community was told. They packed up and moved to a camp six kilometres from the town, symbolically taking them outside of the prescribed areas of the intervention.

IDEA #2 – Removing punitive welfare conditions

The embrace of income management policies is another example of how the continuation of conservative ideological dogma runs contrary to evidence-based public policy. For instance, the quarantining of welfare payments was included as part of the intervention with the seductive rhetoric that it would be linked to school attendance. This played well with an electorate who probably assumed that low attendance rates and poor educational outcomes for Aboriginal children were caused by the poor parenting of their parents. Yet there is evidence that shows that poor educational outcomes for Aboriginal children are explained by other factors.

An evaluated trial of a scheme linking welfare payments to school attendance in Halls Creek found that the attitudes of parents of Aboriginal children were only one of the factors that affected school attendance. It pointed to the central role of quality teaching and general school culture plays in the attendance and performance of Aboriginal children. It also found that the housing situation in Halls Creek – where overcrowding is a critical problem – is unlikely to provide an environment where families can be ‘school ready’.

There is simply no evidence that shows that linking welfare to behavioural change is effective. In fact, there is evidence that suggests the very opposite: the imposition of such punitive measures in an already dysfunctional situation will exacerbate the stress on households. The goal of improved attendance

may be better achieved by the introduction of breakfast and lunch programs; programs that bring the Aboriginal community, especially Elders, into the schools; Aboriginal teacher's aides and Aboriginal teachers; curriculum that engages Aboriginal children; and programs that blend the development self-esteem and confidence through engaging with culture with programs that focus on academic excellence.

These effective programs and strategies show the importance of building a relationship of trust between Aboriginal families and the school in order to target attendance and performance. These factors come from a range of successful community-school driven projects including Augusta Primary School in South Australia, Cairns West State School in Queensland, Darlington Public School in New South Wales, the Deadly Ways to Learn project in Western Australia, the Ganai project in Victoria, the Merredin Senior High School in Western Australia, Narrabundah Primary School in the ACT, Nidia Noongar Boodjar Noonook Nyininy materials, the *Road Open: The Kimberley* interactive DVD, the Rosetta Primary School in Tasmania and Yarrabah State School in Queensland.

All of this suggests that, rather than simply punishing parents for their children's non-attendance, the government should be providing schools and teachers that meet the needs of the Aboriginal community.

It cost \$88 million to make the initial administrative changes in Centrelink to facilitate the welfare quarantining yet not one additional dollar was spent in the first wave of the intervention on any of the types of programs that have been proven to engage Aboriginal children in schools.

Further, COAG evaluation data showed that the Northern Territory was spending 47c on the education of an Aboriginal child for every \$1 spent on the education of a non-Aboriginal child. Many Aboriginal communities in the Northern Territory do not have enough teachers, classrooms or desks to accommodate all the children that reside in the community.

A punitive measure placed on families to ensure their children come to school is hypocritical from any government that neglects the same children by failing to provide adequate funding for a teacher and a classroom. Even if it did work to physically bring more children into a classroom, how can a quality education be received if there has been under investment in teachers and educational infrastructure to begin with?

QUICK WINS: Three fixes in three minutes

Combining pragmatic politics and progressive policies

There have been claims that plenty of money has been spent on Aboriginal and Torres Strait Islander people with little impact. Here are three targeted policy initiatives that would give guaranteed good results.

Quick win #1 – Adequately fund Aboriginal legal services to meet the needs of their clients

Aboriginal legal services have been underfunded for over 15 years. The Rudd-Gillard government delivered a one-off funding boost to the community legal services sector but Aboriginal legal services are still funded less per case than mainstream community legal services. This significantly hinders the capacity of the Aboriginal legal services to meet the needs of Aboriginal people going before the courts and adds to the higher levels of incarceration, particularly as a result of the refusal of bail.

Quick win #2 – Invest in diversionary programs

Despite the findings and recommendations of the Royal Commission into Aboriginal Deaths in Custody, incarceration rates of Aboriginal people continue to rise, particularly for Aboriginal women and juveniles. Diversionary programs, particularly those working with young offenders, have been effective in reducing the re-offending rates. These programs – such as circle sentencing – have been trialled but resources have not been allocated to ensure that they can be rolled out in the communities that need them the most.

Quick win #3 – Support community controlled Aboriginal health services

Like the Aboriginal legal services, Aboriginal health services have been underfunded, making it difficult for them to meet the needs of their client base. While there has been a push towards mainstreaming of Aboriginal health provision, there remains a strong case for Aboriginal health services. The health needs of Aboriginal people are distinctive and complex and services that target those specific needs are far more likely to be effective.

Aboriginal people still show reluctance to use mainstream services, believing they are more likely to be discriminated against.

SO CRAZY IT JUST MIGHT WORK...

Engage with Indigenous communities and commit to building their capacity

Policy makers continue to overlook and dismiss the knowledge that Aboriginal people have about solving their own problems. The research in Australia and in Indigenous communities in North America shows consistently that the best way to lessen the disparity between Indigenous and non-Indigenous people is to include Indigenous people in the development of policy and the design and delivery of programs into their communities. Apart from sounding like common sense, the research shows that this engagement assists in ensuring the appropriateness and effectiveness of those policies and programs, as well as community engagement with them, and therefore greatly increases their success.

This level of engagement requires investment in building the capacity of Indigenous people and their communities. This means a commitment to something that policy makers often overlook: the need to invest in human capital. If participation by Indigenous people is a central factor in creating better policy, program and service delivery outcomes, there needs to be more effort to build up the capacity for that kind of engagement. This would include:

- Rebuilding an interface between the government and the Aboriginal community through representative structures so that governments can more effectively consult with and work with Aboriginal people
- Focusing on the provision of training and education in ways that improve the capacity of Aboriginal communities. This means moving away from simple solutions like simply removing children into boarding schools and instead looking at a range of strategies that build the skill sets and capacities of adults as well as younger people who need to retain contact with their families if they do leave for better schooling opportunities
- Increasing the number of Aboriginal people in the public service and who are engaged with developing and delivering Aboriginal policies and programs, and
- Looking at flexible employment arrangements such as work-for-the-dole schemes that understand that in many Indigenous communities there is no viable workforce or there are barriers to entering the workforce. Such

schemes can assist with the provision of services and infrastructure in the community at the same time as they build capacity and skills within the community itself.

CONCLUSION

While the apology was a significant symbolic shift in the national dialogue between Indigenous and non-Indigenous Australians, the policy shift between the Howard Government and the Rudd-Gillard Government was less discernable. Key policy initiatives and ideological assumptions, particularly those that formed part of the Northern Territory intervention, continued despite a change of government. Under Labor, the quarantining of welfare payments and the requirement that Aboriginal communities lease back land in order to access housing money have been rolled out across the country, even though there is evidence of the failure of these policies to improve the conditions of Aboriginal people in the Northern Territory.

The ambition of 'closing the gap' is an admirable one and should be the key target for government policy. However, current policy approaches are running contrary to the evidence of what works in achieving better outcomes and the government continues to ignore the clear evidence of current policy failure. The poor results from current government policy are exacerbated by the fact that the Coalition shares the same ideological approach and has not questioned government failure in this area to the extent that it has in others. The losers in that have been Aboriginal people on the ground.

Indigenous policy needs a complete rethink. As Kevin Rudd said during his historic speech apologising to the stolen generations, we have to stop making the same mistakes that we made in the past. Fine rhetoric – but Indigenous communities now need that sentiment to guide policy makers.

MAKING IT LAST

“As a middle power,
the most effective
act of diplomacy
is to prove by our
own example
that it’s possible
to go from heavy
polluter to climate
problem solver.”

Shifting from fear to hope

By Fiona Armstrong

INTRODUCTION

UNLIKE MANY OTHER COUNTRIES, Australia has no significant climate policy. Efforts to introduce a lacklustre emissions trading scheme have failed, and apart from some minor policies, Australia has no significant policy agenda to contribute to the global effort of stemming our relentless rise in greenhouse gas emissions, or to draw down our legacy of excess carbon dioxide (CO₂), as we are warned we must.

Australia's history is closely linked with a reliance on natural resources. We have been encouraged to think that the 'lucky country' is dependent on its natural assets for wealth and prosperity and that their exploitation is our only key to a stable economy and flourishing society. The bad news is that the way we are using some of those resources is damaging not only the ecosystems on which we depend, but also our economic security and our nation's reputation as a good global citizen.

The good news is that our abundant natural resources can continue to dominate Australia's future. But we must begin to transform our economy now to capitalise on this continent's natural advantages of sun, wind, and soil and the opportunities they afford for a secure future.

The fossil fuel lobby's claims that renewable energy can't do the job, or that cutting emissions will harm Australian's job prospects, are simply unfounded – in fact the reverse is true. Wind and solar data tells us that we have massive energy resources available and technology exists to provide us with renewable energy day and night. Detailed reports indicate there is huge potential for the creation of jobs in constructing and operating new renewable energy infrastructure. Further studies suggest that a failure to engage with new global markets that are being created by action on climate change means Australia is missing out on opportunities to develop innovative intellectual property and on growth in profitable new industries.

Unless Australia supports the development of an economy powered by renewable energy sources, we risk a loss of competitiveness internationally. Our reliance on coal looks increasingly reckless economically as well environmentally as other countries begin to look at imposing border taxes on carbon intensive imports. We need to begin our clean energy transformation now, or Australia will lose out on the jobs and economic benefits from what could be the "biggest high technology market of the 21st Century."

It is time to link climate with policy across the sectors (energy, transport and agriculture in particular) and to develop strategies to ensure Australia is able to meet its fair share of the global obligation to reduce greenhouse gas emissions and reduce atmospheric CO₂ to a safe level. This will require a considerable shift away from the current focus on propping up 'sunset industries' in the face of inevitable change.

The scale of transition is enormous, but as Sir Nicolas Stern, Professor Garnaut and others have identified, the costs of not acting far outweigh the costs of action.

Repositioning Australia now to capitalise on its natural advantages by building industries based on sustainable resources will enable us to lower our emissions and draw down carbon dioxide – with the additional benefits of more jobs (and more secure jobs), cleaner air, economic prosperity and energy security.

Addressing climate change is both a matter of domestic policy and international obligation. Australia cannot have any credibility in global discussions on climate change if it takes no effective action itself. Effective international action depends on emission reductions being *undertaken* by industrialised nations, not just promised. It is the implementation of effective policies to reduce each nation's emissions that is the key to international agreements, not the other way around.

The development of a comprehensive policy suite to address the challenge of climate change for Australia is well overdue. Action is needed to reduce emissions, draw down excess carbon dioxide from the atmosphere, and to adapt and prepare for further changes to the climate. This will not only assist in eliciting cooperation from other global partners in the task of restoring a safe climate, it will also:

- Help position Australia in the increasingly competitive global marketplace of clean, sustainable industries
- Improve our energy and national security, and
- Provide considerable health and social benefits.

THE STORY SO FAR

During the past decade, Australian governments have been slow to respond to the global effort to reduce emissions and act on climate change. This reflected the scepticism (and later, denial) on the part of some of the senior members of the Howard government on the scientific evidence on global warming. Concerns about Australia's reliance on fossil fuels (for electricity generation, transport and export revenue) led to that government's refusal to ratify the Kyoto Protocol (an international agreement effective since 1997 between 190 countries) despite being only one of two industrialised countries not to do so.

Under pressure from shifting popular opinion however, Prime Minister Howard pledged to develop an emissions trading scheme to reduce green house gas emissions in 2006, and commitments were made by the then Rudd Opposition to address the issue. Elected on a wave of popular support and desire for change, the Rudd Government adopted the Howard policy of emissions trading in 2007, and during 2007-08, developed a 'cap and trade' model, known as the Carbon Pollution Reduction Scheme (CPRS). The Opposition changed position (and leadership) on the issue, and the legislation was rejected twice in the Senate, amid widespread criticism of the scheme.

With growing community concern about its inadequate targets, excessive use of offsetting, unnecessary compensation to polluters, and the setting of both a 'cap' and a 'floor' beyond which emissions reductions could not fall or rise, by early 2010 the CPRS had become a liability for the Government, and it was shelved (to be reconsidered, we are told, in 2013).

This decision offers a fresh opportunity to look at climate policy options in Australia and provides an open space for the development of innovative and effective policy ideas. Such ideas must necessarily reflect actions being taken globally as well as position Australia for leadership in the global effort to address the challenge of climate change.

WHY DOES CLIMATE POLICY MATTER?

Climate change poses profound threats to the natural ecosystems and biodiversity on which humans depend, and is altering the previously stable climatic conditions that have existed over the past 10,000 years – allowing human civilisation to flourish. Overwhelming scientific evidence over several decades demonstrates human activity (in particular, the burning of fossil fuels

for power, heat and transport as well as widespread deforestation) has led to an accumulation of carbon dioxide and other greenhouse gases in the Earth's atmosphere above pre-industrial levels. This is causing increases in average global temperature, changes to the Earth's climate, and severely compromising the ability of the Earth's oceans to absorb carbon dioxide. Ocean acidification is threatening the viability of marine ecosystems, with significant implications for food production for millions of people.

The most recent scientific evidence confirms these effects and demonstrates a rapid increase in the rate of warming due to dramatic increases in global emissions. The timeframe for effective action to reduce emissions and prevent the collapse of major ecosystems (and thus our food chain, among other things) is very short – global emissions must peak within this decade and then rapidly decline.

CARBON DIOXIDE ISN'T THE ONLY PROBLEM

Climate change is only one of three 'planetary boundaries' (identified by Earth system scientists as quantified boundaries within which humanity can safely exist) that have already been transgressed. The others are the nitrogen cycle and biodiversity. Nitrous oxide requires special attention, as it is a significant climate forcing agent, with a global warming factor 300 times that of CO₂. The profligate use of nitrogen by humans (mainly in agricultural fertilisers) is also responsible for the pollution of waterways and damage to marine ecosystems, and is implicated in outdated fossil fuel energy production.¹⁴

Biodiversity is often overlooked in policy discussions and efforts to reduce emissions. However there are compelling reasons to act to prevent further global warming on biodiversity grounds alone, and to place a value on the services afforded to us by the ecosystem. We need to recognise the vital connection between the choices we make on resource use, the status of the ecological system and the wellbeing of people. There are profound economic consequences for failing to do so: from a total of over \$US 33 trillion (the 1997 estimated annual value of global ecosystem services), conservative estimates put the annual global loss of land based ecosystem services at €50 billion, and potentially equivalent to seven per cent of GDP by 2050.

Protecting nature's grey matter

Protecting biodiversity means maintaining the irreplaceable intellectual property that is created by millions of years of evolutionary design – as memorably put by Ian McBurney from live-ecological: “We could also be losing the chance to study nature’s 3.8 billion years of design perfection and find cures for diseases or bio-mimetic glues, organic solar cells, structural designs, super fast computer hardware, self cleaning paints, truly biodegradable packaging, ‘photosynthetic’ hydrogen splitting for fuel cells, stronger and self assembling ceramics, more effective trains and aeroplanes, colour through shape, rather than pigments, bacteria that mine metals from waste streams, collision avoidance circuitry from locusts and lots more.”

A diverse ecosystem is a resilient one, but the capacity of biodiversity to cope with climate change is not infinite: as the 2009 Australian Government report on biodiversity and climate change stated:

“Australia’s biodiversity has only so much capacity to adapt to climate change, and we are approaching that limit. Therefore, strong emissions mitigation action globally and in Australia is vital – but this must be carried out in ways that deliver both adaptation and mitigation benefits.”

Prompt and effective action on climate change is therefore an essential act of risk management. This action will also confer many more immediate benefits to Australia’s health, wellbeing, and national and economic security.

There is good news for jobs: studies show there are significant opportunities for ‘green’ jobs growth, since the renewable energy industry creates more jobs per unit of energy generated than the fossil fuel industry. It is also a safer industry: the risk of death or injury from workplace hazards is greatly reduced in the renewables sector compared with those working in coal mining and fossil fuel extraction.

And there is good news for health: improvements to the transport system and powering it with clean renewable energy will reduce air pollution and (if carefully planned, promoted and maintained) stimulate greater physical activity, reducing the risks of some chronic diseases, such as respiratory disease, obesity, diabetes, and cardiovascular disease. Modifying our food choices away from high emissions livestock production can reduce cardiovascular disease,

and reducing our dependence on industrial scale farming practices will improve soil and water quality.

Shifting from the burning of fossil fuels, such as coal, for our energy supply will bring significant benefits for those living and working nearby, with developmental disorders, cancers, heart disease and respiratory problems all implicated in proximity to the mining, transportation and burning of coal.

Fast facts

- The annual health costs of coal-fired power generation in Australia are estimated at \$2.6 billion. Coupled with costs from traffic pollution (a 2003 estimate put annual health costs at \$3.3 billion), the health costs to the Australian community from burning fossil fuels is around \$6 billion annually.
- If the currently externalised total climate and health costs for Australian power stations were accounted for, the costs of energy generated by fossil fuels would be considerably higher. If total climate and health costs were included, costs are estimated at: \$A19/MWh for natural gas, \$A42/MWh for black coal and \$A52/MWh for brown coal. In contrast, wind power installations are around \$A1.50/MWh, while solar thermal and solar PV are equivalent to around \$A5/MWh.

VALUES AND PRINCIPLES

There are both self-interested and moral reasons to act on climate change. We should act to protect ourselves from current and future risks, and we should act to prevent others being affected. Fundamentally, however, the principle that overwhelmingly demands a shift in our approach to economics, our use of natural resources, and our response to climate change, is simply the principle of the 'interconnectedness' of ecology and human society. Too little understood by economists, policymakers and overwhelmingly urbanised global populations, the awareness that we are intrinsically part of and totally reliant on a complex interconnected ecological system (whose equilibrium is currently disrupted and increasingly threatened by our current activities) is what should drive our responses to climate and environmental challenges. There are other important issues that should also underpin our response, such as our obligation to intergenerational equity (we don't leave a mess behind for our kids), global justice (we don't further damage the wellbeing of people in poorer nations by selfishly insisting we have a right to pollute, *and* alter the

climate), and finally the precautionary principle – because reducing the risk of dangerous climate change is the most profound act of risk management that we can take.

Fear of these risks and consequences may not be what drives us. Psychological studies reveal that, influenced by those with vested interests in the status quo, humans have demonstrated an extraordinary ability to deny the evidence on climate change and its imperative for action. A new national ‘narrative’ is needed that will enable people to feel optimistic about the future, confident in the solutions, and convinced that change will not only address current and future risk, but will actively contribute to the establishment of future societies that are better for all of us. As many organisations are beginning to appreciate, changing the way we do business is necessary to ensure that we continue to have access to the ecosystem services on which we depend. Shifting Australia’s economy from one that depends on exploitation of finite natural resources to one that is underpinned by infinite and clean resources is both a challenge and an opportunity. But the emerging evidence is that, not only is it possible, it will bring with it unparalleled economic gains – with the creation of jobs and industries that will make us internationally competitive and economically secure, with better health and more connected communities.

HOW DO WE DO IT?

Transforming energy, transport and land use to make Australia cleaner, healthier, safer, wealthier and more responsible

There is a great need to considerably broaden the policy discussion in Australia on climate change. To date, policies and programs have been developed that are inadequate in scale (Solar Flagships); ill-conceived (the Renewable Energy Target, otherwise known as RET and net feed-in tariff); fail to take account of the science (low emissions reduction targets); illogical (inclusion of native forest biomass and coal mine waste gas as eligible renewable energy sources in the RET); and poorly administered (insulation). Other policies, also insufficient in magnitude but nonetheless effective (Remote Renewables Program), have been abandoned.

Many of these policies have been developed in isolation from one another, when in reality, comprehensive, whole-of-government (let’s face it, whole-of-*society*) responses are needed.

There are three main strategies necessary to effectively address climate change. These are:

- Reducing the production and emission of greenhouse gases from all sources – starting our New Industrial Revolution
- Removing excess CO₂ from the atmosphere – restoring the balance for land, air and sea, and
- Providing for the review and monitoring of a range of techniques for direct cooling of the climate – ensuring safety in climate interventions.

Starting our New Industrial Revolution. Reducing emissions and removing CO₂ from the atmosphere requires moving away from the use of fossil fuels in the energy and transport sectors. The changes needed are technically possible, economically feasible and will lead to significant long-term reductions in future energy costs, improvements to population health, and increased agricultural productivity. This will bring about substantial changes to the way we use natural resources but we will be healthier, safer, and facing a more secure economic and foreign policy future as a result. Policy options must include strategies that will achieve a rapid transition to zero emissions technologies, reduction in energy demand and reduced emissions from non-energy related sources.

Restoring the balance – for land, air and sea. The drawing down of legacy emissions (those already in the atmosphere) is also needed to restore a safe climate zone of atmospheric CO₂. At present the main option for this is that of biosequestration. Australia has enormous potential to sequester large quantities (potentially billions of tonnes) of CO₂ in soils and forests. We need to begin to account for our ‘natural capital’ and stop cutting down our native forests, degrading our waterways and be mindful of the need to secure quality land for food production, increase the use of biochar and undertake substantial reforestation of our ‘wide brown’ land. Where possible, policy makers must take into account the value of ecosystem services and reflect that value in the establishment of price signals and regulatory measures.

Ensuring safety in planned climate interventions. Providing for the review and monitoring of a range of techniques for direct cooling of the climate in legislation is necessary to ensure that Australia is aware of, and remains engaged in developing governance frameworks for any technologies being explored to directly alter global or regional climates. This approach acknowledges that

while the utmost priority should be placed on eliminating emissions and drawing down excess, should the Earth's climate suddenly deteriorate, it may be necessary to consider a range of options to protect the Earth's systems while natural safe climate conditions are restored.

The policy toolbox

Australia's next term climate policy goal: Smarter, greener, fairer, healthier

Implementation of the strategies above requires the development of broad national climate change legislation encompassing a suite of policy responses to reduce emissions, draw down carbon and ensure sound governance of climate cooling techniques. This should be accompanied by commitments at the COAG level for state and territory legislation that supports and assists the goals of national initiatives.

The legislation must include the following key elements:

1. Specific targets for emissions reductions and draw down of emissions – these must have a timeframe attached for regular review (e.g. annually, according to advice from an expert climate scientific advisory committee)
2. Meaningful financial incentives e.g. a price on carbon that is set at a level that will prevent financing of any new coal fired power generation (unless it can safely capture and store 100 per cent of its GHG emissions) and make clean renewable energy cost competitive with fossil fuels
3. Energy efficiency standards, fuel consumption standards and greenhouse gas emissions standards that encourage significant reductions in energy use (of fossil fuels in particular) and create disincentives for inefficient energy use in building, transport, and appliance technologies
4. Programs and incentives to discourage deforestation, encourage reforestation and improve land use to deliver emissions reductions and promote biosequestration
5. Investment in national energy transmission infrastructure, zero emissions energy technology development and deployment, and zero emissions transport infrastructure, and
6. Removal of the perverse incentives that exist in current policy, such as the current subsidies to fossil fuel industries.

The legislation must make use of these top climate tools:

1. Carbon tax - the revenue from which should be used to offset the increase in energy costs for low income and disadvantaged households, assist workers who are disadvantaged during the transition, and to fund the renewable energy transformation
2. Gross feed-in tariff, for a guaranteed period and tiered according to technology – this is needed to expand renewable energy technologies that are not currently cost competitive under the RET e.g. solar thermal with storage, wave, geothermal; it should be established initially to operate alongside the RET but over time the RET should be phased out
3. Mandatory standards for emissions and energy efficiency – to drive emissions abatement and to reduce energy use
4. Progressive taxation policies that encourage the rapid deployment of zero emissions technologies and conservation of natural capital – e.g. tax relief for renewable energy technologies through accelerated depreciation rates; tax breaks and other incentives for landholders/communities to undertake reforestation projects/reduce deforestation and improve biosequestration
5. Public financing to upgrade and expand national energy transmission and public transport infrastructure
6. Funding to support capital investment for renewable energy technology and the development and deployment of technologies for biosequestration and improving soil quality e.g. biochar – through the provision of low interest loans or loan guarantees
7. Removal of subsidies for those industries that cause us harm e.g. fossil fuels and intensive agriculture – these subsidies should then be applied to renewables and organic farming
8. Transition and adaptation support for communities – undertaking comprehensive regional climate risk assessments that evaluate economic, health, social and environmental risk and developing action plans to address risk
9. Comprehensive education programs to improve climate literacy in all communities
10. Investing in research – this is needed to monitor climate change in order to respond effectively; for further development of zero emissions technologies; to improve our understanding and capability for drawdown and transition strategies; and to improve our understanding of climate cooling techniques

11. Investment in education and training of the skilled workforce needed to manufacture, install, operate and maintain new technologies; and retraining of workers in high emissions industries to enable them to participate in the new green economy, and
12. A sustainable population policy – recognising the environmental impact of our high per capita emissions and the effect of the human population on our fragile ecosystem.

WHY CHOOSE THESE TOOLS?

Tax

In his landmark report on the economics of climate change back in 2006, Sir Nicholas Stern identified a price on carbon as a key element to cutting emissions. Nothing has changed; only the urgency of its application has increased. A carbon tax provides a better choice than emissions trading because it:

- Creates an economy-wide incentive to reduce emissions
- Is simpler and more transparent than emissions trading
- Provides a reward for more long-term (and higher cost) structural changes, while an ETS just encourages low-cost reductions
- Provides a steady flow of revenue for governments to direct towards emissions abatement
- Provides more price certainty for business than the volatile market of emissions trading
- Can be adjusted according to a jurisdiction's emissions profile
- Sets no upper limit on emissions, unlike an ETS, which creates a ceiling (beyond which emissions will not occur) and a floor for emissions reductions
- Doesn't discourage voluntary action, and

- Since there are no ‘rights to pollute’ with a carbon tax, it is less likely to generate the compensation claims and buyback costs associated with an emissions trading scheme.

And a tax will be more efficient economically. A 2008 study from the US Congressional Budget Office found that on economic efficiency measures, the net benefits of a tax were roughly five times that of a cap-and-trade (emissions trading scheme), with reductions achieved at a fraction of the cost.

Feed-in tariffs

The choice to implement net, rather than gross, feed-in tariffs in some Australian jurisdictions has been a mistake; the rewards for net feed-in tariffs are minimal and quite insufficient to drive investment in large scale renewable energy technology. In contrast, a gross feed-in tariff has been used effectively in Germany, where it provides investment security, has created hundreds of thousands of jobs and saved billions of Euros in avoided expenditure on fossil fuels.

The story is similar in Spain where, in addition to an EU renewable energy target of 20 per cent by 2020, a gross feed-in tariff is responsible for delivering the Government’s 2010 target of 20 GW of installed wind capacity, and driving a surge in investment in the cheapest form of solar power – concentrated solar thermal (CST). A guaranteed long term tariff rate at a high enough level to cover costs, coupled with a specific target for CST is responsible for Spain currently boasting the largest global share of solar thermal projects under construction.

Standards and targets

It’s time to move beyond voluntary standards – these have been in place in some jurisdictions for decades and emissions have continued to rise. Relentless increases in energy consumption in Australia (predicted to rise 35 per cent by 2030), need to be addressed through aggressive and continually improving mandatory standards and targets for energy efficiency to reduce energy demand. There is huge potential for emissions reductions from improving energy efficiency: according to a 2008 McKinsey and Co report, about 25 per cent of potential emission reductions could be achieved through energy efficiency measures alone, and what’s more, they are cost-positive (i.e. they save money). To make these standards effective, it is also vital to increase the incentive for emissions reductions by electricity and gas utilities through decoupling the link between revenue and volume of energy sold – in other words, to shift

from the current incentive to sell more energy, to less. Australian transport emission standards also require considerable strengthening if the health costs (see above) and emissions abatement needed are to be achieved. The transition away from fossil fuels will also require direct investment in the production of clean renewable energy powered vehicles.

Infrastructure

Immediate and major investment in zero emissions public transport is necessary to encourage a shift away from private cars to public transport and bicycles in metropolitan areas, increased use of and investment in electrified rail to replace much of the heavy haulage of road transport, and development of a national fast electric rail network to reduce emissions from domestic aviation. To facilitate the contribution of decentralised renewable power generation, a nationally integrated 'intelligent' grid for electricity distribution is needed – for which public investment is required.

Removal of fossil fuel subsidies

Achieving effective emissions reductions requires the removal of existing perverse incentives that work in opposition to this goal. Around \$10 billion is currently provided in public subsidies to the fossil fuel industries in Australia every year via a range of state, territory and federal programs. Decarbonising the economy requires that these subsidies are instead applied to the development and deployment of zero emission technologies.

These policies and others listed above are not an exhaustive list of all the options available for inclusion in a comprehensive climate 'policy suite', but are certainly some of the key ingredients. Other important options include, for example, the establishment of a national climate change commission to oversee, monitor and report on the implementation of policy. It is clear, however, in the time remaining to effectively act on climate change, no single policy will be enough, and a range of options must be urgently employed.

WHAT IS THE EVIDENCE THAT THE NEW INDUSTRIAL REVOLUTION IS POSSIBLE?

It is not only possible – it can be achieved in relatively short time frames, as the technology is already available and resources are abundant. All that is missing is political will.

A new report from Melbourne consultancy Beyond Zero Emissions (BZE) supports the findings of international studies which demonstrate that the world's energy requirements could be met from renewables within 10-30 years – with aggressive policy action. The BZE report (released July 2010) suggests it is possible for Australia to undergo an energy transformation and move to 100 per cent renewable energy for its stationary energy supply by 2020. This could be achieved using fully scaled commercially available technology (wind and solar thermal power with storage) to provide 24 hour dispatchable power from geographically dispersed energy-rich sites across the country.

The use of these two technologies directly addresses the claims of naysayers who assert that renewable technology is not yet up to the task of large-scale national power generation. The distribution of generating systems overcomes the variability of wind and, combined with the availability of power storage with solar thermal (up to 16 hours), also lays waste to the argument that only fossil fuel and nuclear sources can provide baseload power. Combined with energy efficiency gains, the use of biofuels from agricultural waste, and upgrades to transmission infrastructure, the rollout of these two technologies could achieve massive emissions reductions from the single largest source of greenhouse gas emissions in Australia – fossil fuel power generation. It would also generate 75,000 jobs during construction and 80,000 ongoing jobs in operations, maintenance and manufacturing – well in excess of those currently employed in the fossil fuel energy supply workforce. The required investment for the implementation of this plan is estimated at around 3-3.5 per cent of gross domestic product over 10 years, or AU\$35-40 billion per year for 10 years. When the loss of irreplaceable natural capital (i.e. currently unaccounted for 'externalities') is accounted for, this may seem like a very prudent investment indeed.

Other recent modelling supports these predictions of national jobs growth from strong policy action through investments in renewable energy, with regional areas in particular set to gain from an energy transformation. The National Institute of Economic and Industry Research estimates 770,000 extra

jobs could be created by 2030 across Australia if a suite of policy measures to reduce emissions is implemented. As well as contributing to Australia's competitive advantages by creating a strong and resilient domestic renewable energy industry, this type of action will also help to reduce our long term energy costs, build national capital and improve health outcomes.

The renewable energy revolution is not only possible – it's happening already. Investment in renewable energy is generating more jobs per dollar invested and more jobs per megawatt hour than fossil fuel generation. Global employment in renewable energy is already outstripping direct employment in the oil and gas industries. Since 2005, global investment in renewable energy has increased 230 per cent, and is expected to total A\$185 billion in 2010. And, far from being a laggard, China is leading the world, with investments in renewable energy of \$US34 billion in 2009.

CONCLUSION

It is both possible and necessary for Australia to develop effective climate policy to contribute its fair share to the global task of emissions reduction and to ensure its own secure economic future, while protecting the wellbeing of its citizens.

Policy makers must realise that by taking responsibility for effective action, Australian leadership and action would send a strong signal and influence the response of other nations. As a 'middle power', the most effective act of diplomacy open to us is to prove by our own example that it's possible to go from heavy polluter to climate problem-solver. Australia urgently needs other countries to believe in that possibility, because as a "land of droughts and flooding rains" we have more to lose from climate change than most.

To build public support for effective policy, it is vital that policy makers communicate the scale and urgency of the problem to the community. Voters cannot be expected to support policies they don't understand or comprehend the need for. The demonstrable disrespect for science that has pervaded political discussions in Australia threatens us all. It is time our political leaders defended climate scientists and made it clear that we do face grave risks, and that it is therefore necessary to develop policies that reflect the scientific evidence. It is also important that the benefits of taking action are made clear to ensure there is a sense of optimism about the future and to encourage innovation in

the development of solutions. Overcoming domestic resistance by those with vested interests requires that governments enlist the support of the ordinary citizens – by communicating the benefits of actions as well as the risks. Many people may be unaware that effective mitigation is possible – and entreating the community to join in a national exercise that offers optimism and hope for the future may just be a successful political act.

Ultimately, whether or not we respond effectively will be a test of democracy that will determine our future as a species. Right now, it's not going so well. Major corporations have greater sovereign power (and bigger balance sheets in some cases) than many nations – and this is reflected in global, and in particular Australian, responses to climate change. At present it is those who have a vested interest in the status quo who are dictating policy. If, as citizens, we choose to deny them this influence, we will need to make our voices much, much louder than they are at present. The time is ripe for a revitalisation of democracy to ensure our political leaders respond. This may be the most important project we can ever undertake.

The risks of *not acting* are enormous, but the benefits, if we are successful, may be profound. As Al Gore said: “*We have at our fingertips all of the tools we need to solve the climate crisis.*” Here in Australia we have abundant energy sources, relative wealth, an educated population, and a history of good global citizenry. It's time we applied all these to a new national project – addressing climate change.

“Greening the grey
fields can help
regenerate declining
middle suburbs.”

Sustainable cities

By Peter Newman

THE NEED FOR a federal response to sustainability has been growing and should be a critical part of the Gillard Government's new term. The bipartisan House of Representatives Environment Committee wrote an exceptional report in 2005 called Sustainable Cities. It had a series of very good strategies and policy suggestions – most of which have not been implemented.

The issues covered in the 2005 report have moved on somewhat although the core idea remains that Australian cities need to reduce their ecological footprint from their resource consumption whilst improving their liveability. Australian cities like all cities have been improving their liveability for centuries but at the expense of their ecological footprint. Now is a global imperative and economic opportunity to reduce their carbon emissions, their oil vulnerability and their water usage whilst making better communities, better housing, better transport and better businesses. That is the global challenge and we have an important responsibility to help lead this process.

This chapter will provide some suggestions for ten ways to proceed.

POLICY CONTEXT

The constitution makes it quite clear that management of land and cities is a state responsibility and through states this has been devolved to a partnership with local governments. It is a bipartisan policy in all our states and territories to plan and provide infrastructure to shape the economy, the environment and the community in our cities. However at federal level, this policy arena has been less bipartisan and the ALP has been more active at intervening to assist in this agenda. The Department of Urban and Regional Development (DURD) experiment under Whitlam and Better Cities under Hawke-Keating were the main results. This was until the 2005 House of Representatives Report that was supported by all parties on the Committee and continues to have bipartisan support, at least in theory, as the Coalition has a spokesperson on Sustainable Cities.

The Rudd-Gillard Government's main response has been to establish Infrastructure Australia with a mandate to include the 'transformation of our cities'. This independent body with half of its Council from the private sector has established a new way of doing infrastructure planning in Australia. The requirements to access federal funding now include the need to show how infrastructure will impact on the city (in other words infrastructure bids

must include full strategic plans for the city) and they must also show how they are going to reduce carbon. The result has been an historic allocation of over half of the Infrastructure Australia funds to urban rail with the goal of doubling the capacity of each city's urban rail capacity. Infrastructure Australia is now accepted on a bipartisan basis as the authority on how to assess and evaluate infrastructure proposals and internally the biggest shift has been to see Treasury officials recognise the need for planning.

There are three main elements to development of sustainability at a federal level.

Infrastructure Australia

Since the 2005 report we have seen the remarkable rise in concern over climate change sparked by Al Gore's global campaign, the growing awareness from the IPCC that the science was now irrevocably pointing to the need for global action and from Nicholas Stern that the economic time for action was now. This issue clearly spelled the need for a federal response and both Kevin Rudd and Malcolm Turnbull focused on how to make a carbon trading scheme that could make it through the Senate. Both have now gone as they couldn't find a way through the political morass to deliver on this difficult task.

Price on carbon

A price on carbon is obviously needed and is a federal responsibility at the front end of the economy. However, the majority of the carbon is used in our cities and hence there also needs to be an end-user approach that simultaneously attempts to produce more sustainable, less carbon-intensive cities. Both are needed in the long term as prices can't be responded to without structural changes such as better urban public transport to enable people to use cars less. This raises the question of the extent to which federal governments can get involved in the planning and delivery of infrastructure in cities.

Planning

In the past year, the population issue and the need for more affordable housing that is well located to avoid excessive travel, have also focused the need for our cities to be better planned. Over 70 per cent of Australians still want to see action on climate change, peak oil demands we do something about fuel consumption, and we all want to see better infrastructure in our cities if we are to accommodate the kind of growth in population we are facing.

POLICY RECOMMENDATIONS

1. Use the Resource Tax to help fund infrastructure

Problem

The importance of tax as a way of achieving common good outcomes is always contentious but there are some clear and obvious deficiencies in Australia's infrastructure that are not contentious at all – they just need money to fix them. The big cities, especially Sydney, have a big deficiency in public transport capacity. Infrastructure Australia has ploughed \$4.6 billion into urban rail in an historic set of infrastructure decisions. However this is just the start and Sydney and Brisbane missed out as their plans were not ready. The private sector will help with partnership funding, as will state and local governments but the foundation needs to be Federal funding.

Solution

Sixty per cent of the Resource Tax should be hypothecated (40 per cent in cities and 20 per cent in regions) evaluated by Infrastructure Australia to produce the most economic and sustainable outcomes. Hypothecated infrastructure funding is needed for our cities and for our regions. Just as Sydney needs urban rail, the Pilbara and other mining-related towns such as Mackay and Gladstone also need fundamental infrastructure to enable them to survive and thrive under enormous growth pressures. Infrastructure Australia should continue to be the source of advice on all these projects.

2. Integrate regional infrastructure and land use

Problem

The Infrastructure Australia approach has been to say “no plans – no money” when it comes to infrastructure decisions. No more are lists of infrastructure distributed on the basis of political need, they are assessed and evaluated on a “needs basis” with a set of criteria which include the need to demonstrate reduced carbon as well as improved productivity and liveability. These processes have led to a sea change in state and local government planning as there can be no simple lobbying to determine need, it must be set out in a plan.

Solution

Federal government involvement in planning begins with the need to demonstrate how its money will solve issues in our cities and regions in the long term. This needs to be properly mainstreamed in the strategic and statutory

planning schemes developed in each state for their cities and regions, especially how to deliver Transit Oriented Developments. For this we need to see how the outcomes of the plan from the infrastructure investment will be delivered. That is, the governance of our cities and regions needs to be overhauled to show how it can provide solutions to these needs. Regional governance is still not as obvious as it should be in Australian cities and regions.

3. Base federal funding to the states and local governments on reducing carbon and oil

Problem

The principle of not releasing money to states and local government unless particular national agendas are being met should be expanded into all federal money. It should include the need to demonstrate reduced carbon and especially reduced oil. Kevin Rudd announced this in his powerful speech given to the Australian Business Council in October 2008

Solution

This needs to be translated into mainstream delivery. Climate change and peak oil are not going away, they are based in geophysical reality. We must address them in every level of government, beginning with the federal process of funding. The most significant policy implication is that the federal government needs to require state and local government Climate Change and Peak Oil Strategies. All federal funding to states needs to be contingent on demonstrating reduced carbon and oil in its outcomes, particularly local government funding.

4. Develop a national system of accrediting carbon neutral or low carbon buildings and urban development

Problem

The carbon efficiency of our building stock is now one of the worst in the world. The assessment of buildings for their energy efficiency has been a focus of much government activity at all levels in recent decades. The New South Wales system of BASIX with its requirement to reduce carbon and water by 40 per cent over average household levels was a public policy breakthrough. It is effective because it requires real numbers to be reached in the designs of every new building. Moreover, it is an online process that did away with excessive documentation and bureaucratic planning processes. However the housing industry has not been happy with such radical treatment (though the New South Wales industry did adjust quite quickly and is producing a much better

product now than the other states) so they lobbied for the Victorian green star system. This has no strong data requirements, adopting instead a check list approach. This has become the national standard and although it can be ramped up it has not led to significant improvements in the carbon efficiency of our building stock. Similar issues now surround how we plan precincts. Is it possible to assess carbon reductions in subdivisions and redevelopment projects that involve more than single buildings and require infrastructure assessments?

Solution

There are a number of competing models but they again fall into the same public policy dilemma – do you enforce a standard such as reduction in carbon of 40 per cent or even carbon neutrality as they are about to do in the UK, or do you have a check list that requires very little? The New South Wales Government has developed PRECINX as a data-oriented model like BASIX and there are a range of other check-list based programs like Precinct from the Green Building Council. We should aim higher and see our global response to carbon by adopting a model such as PRECINX nationally.

5. Develop a Sustainable Cities demonstration program

Problem

There is no federal program to enable demonstration of productivity, sustainability and liveability in the same way that Better Cities did in the 1980s and 1990s. This program transformed our old inner cities, trapped in brownfield decay. Now we need to focus on greening the grey fields to help regenerate declining middle suburbs.

Solution

The best demonstrations of sustainability in our cities have been collected globally in my books *Resilient Cities* and *Green Urbanism Down Under*, and the next phase of sustainable cities worldwide is unfolding every day in new opportunities and competitions between green cities. These areas are redeveloping using market approaches that subdivide each house and yard with three or four units, but with no broad benefits in infrastructure or services. New models are needed for planning including spatial tools for determining the best places for precinct scale redevelopment, low carbon designs, engaging

the community and visualising the benefits of the project. A Sustainable Cities Demonstration program needs to be established between Innovation, Infrastructure and Climate Change and Energy Efficiency that can provide an opportunity for global best practice innovations in sustainable cities, especially regenerating the middle suburbs.

6. Establish a carbon credits scheme

Problem

The establishment of the *Carbon Trust* enables us to now seek how low carbon designs for buildings and for precincts could become eligible for carbon credits. An accreditation process needs to be established to enable this 'direct action' form of carbon trading to be facilitated. This process will require data through models like BASIX and PRECINX, so the sooner these are made into national standards the better.

Solution

A carbon credits scheme needs to be established by the Carbon Trust to enable any carbon neutral or low carbon building or urban development to claim these credits.

7. Policy review of renewable energy obstacles

Problem

The need for renewable energy to rapidly become the basis of our economy is demanding a range of policies such as the 20 per cent by 2020 regulation. There are however many simple barriers that continue to prevent renewable energy from being as easily rolled out as it should be. A national approach is needed, with a set of guidelines generated from the COAG-Federal Government process.

Solution

A policy review needs to be conducted of all barriers to small and large scale renewable energy in local and State planning and energy systems, especially in urban areas. Introducing a requirement for strategic environmental assessments to inform the siting of wind farms in regions could help clear away problems and help communities see their public and private benefits. In cities, the banning of solar water heaters and PV arrays in some local areas should not be allowed based on aesthetic grounds.

8. Review barriers to facilitation

Problem

There is a need for more high-level policy review that can clarify the many issues that confront the utilities, households, business, local and state government regulators.

Solution

Al Gore's so-called 'moonshot' for achieving rapid deployment of renewable energy is to use plug-in electric vehicles and smart grids to enable efficient and clever storage of fluctuating renewable energy loads and changing demand curves. The technology is becoming clearer and the federal government 'Smart Grid Smart City' project in Newcastle as well as the 'Solar Cities' projects are all providing valuable information on how to proceed.

9. Promotion of more active transport modes

Problem

The need to reduce car dependence and carbon dependence in our households and businesses is not just a matter of infrastructure, pricing and regulation, it is also a matter of education and lifestyle choices. The first signs of a decline in car use per person have begun to set in to all Australian (and US) cities as well as booming public transport and increasing densities – thus reversing at least five decades of increasing car dependence.

Solution

A special fund for the promotion of active transport modes and sustainable lifestyles in general needs to be established, including the provisions of TravelSmart and LivingSmart type behaviour programs.

a) EXPANSION OF TRAVELSMART

The TravelSmart program, first started in Perth, has now spread across all states, the UK and six US cities. It has been universally finding that 15 per cent of motorised travel can be shifted to more sustainable modes, especially short trips by walking and cycling. With additional funding, more households and more businesses can be part of this process that enables them to find assistance to change. It creates benefits in terms of infrastructure cost savings but also in generating hope for the future. TravelSmart should have a Federal program supporting it across all

cities and regions, especially as peak oil appears to have happened and households will experience significant hardship unless they can begin to reduce their car and fuel use.

b) EXPANSION OF LIVINGSMART

LivingSmart is a translation of TravelSmart into a household program for reducing carbon emissions from using energy and water, generating waste and travelling. It is an integrated program where households in the trial have achieved savings of around one tonne of greenhouse gas. The project is based on individualised approaches that can enable households (and workplaces) to make informed choices on their options for appliances, materials, and lifestyle choices. It needs to become a federal program to enable the 600,000 households that have had Household Sustainability Assessments to receive more personalised follow-up.

10. Remote Indigenous Settlements programs

Problem

The moral dilemma of the 21st Century is probably climate change but the moral dilemma of the past few centuries was slavery and Indigenous rights. We have a chance to be a leader on climate change but we certainly have not led on indigenous policy issues. This remains part of our unfinished business. Several initiatives have been taken to Close the Gap and invariably feature housing and local services but never address the problem of poor road access to remote Indigenous settlements.

Solution

A Remote Indigenous Settlements program would integrate the need for better access, and better housing and local infrastructure should be established with an emphasis on the training of Indigenous people. It is time to develop an Indigenous Infrastructure Fund that can link Indigenous settlements on a core and spoke model and enable them to have the same services as other local government areas. A governance arrangement that can assist Indigenous corporations to apply for funds in a way that can improve productivity (through training) and environmental and social goals, should be developed (similar to the way that Infrastructure Australia works in partnership with state government agencies to improve their applications).

CONCLUSION

Sustainable cities will remain unfinished business for the next 20-30 years as we respond to the wicked problems of climate change and peak oil as well as to the ongoing issues of population growth and affordable housing. Governments will come and go in this time but it is necessary to establish a clear role for the federal government in the planning of our cities. This cannot be an on-again/off-again policy arena as the issues demand a long term approach with many new approaches and demonstrations. The need for federal government commitment in policy and resources to sustainable cities programs will become a bigger and bigger political issue as the scenarios of the IPCC, Stern and the peak oil pundits begin to work out in every day life.

“Australia has
some of the
best low carbon
resources and
opportunities in
the world.”

Facing our limits

By Ian Dunlop

“The greatest shortcoming of the human race is our inability to understand the exponential function.”

- PROFESSOR ALBERT A. BARTLETT,
UNIVERSITY OF COLORADO

AS POPULATION RISES from 6.8 billion today towards 9 billion by 2050, the inevitable logic of exponential growth in both population and consumption is now hitting the limits of global ecosystems and resource availability. The immediate pressure points are energy security, climate change, biodiversity loss, water and food availability, issues which are converging rapidly in a manner never previously experienced. These are only the tip of the broader global sustainability iceberg. Further constraints and limits are fast becoming evident as major developing countries, particularly China and India move up the growth escalator.

This situation is not unexpected; it has been anticipated for decades going back before the 1972 publication of *The Limits to Growth*. In the meantime the developed world has created a political and capitalist system which has proved incapable, so far, of recognising that the most important factor for its own survival is the preservation of a biosphere fit for human habitation.

The aftermath of WWII bred statesmen and women in both government and business intent upon creating a better world, re-building society, avoiding further conflict and genuinely prepared to take a long-term view. The results were far from perfect, but that vision did provide the foundations for the increasing prosperity the West has enjoyed ever since.

With prosperity came complacency; the assumption that growth within a finite system can continue indefinitely. This is hardly surprising, given that power and influence accrue to those who prosper under capitalism, and that technology until recently has enabled us to push back or ignore any physical constraints. Enormous political and personal capital is now vested in preserving the status quo. As a result, our institutions have become predominantly short-term focused; politically due to electoral cycles and corruption of the democratic process; corporately due to perverse subsidies and incentives, particularly the bonus culture which became the norm through the 1990s. Managerialism replaced leadership, statesmen all but disappeared, ethical standards deteriorated, so that we now find ourselves uniquely ill-equipped to handle the long-term challenges which lie ahead. The upshot is a series of escalating crises, most recently the Global Financial Crisis (GFC).

The developing world was intent on slavishly following our example. However in the last decade that began to change as the reality of pollution, resource scarcity and increasing inequity hit home, and it became obvious that the developed world model has serious flaws.

What was workable in a relatively empty world of two-three billion people post-WWII is not workable in today's full world of 6.8 billion, let alone the nine billion to come. Our ideological preoccupation with a market economy, based on political expediency and short-term profit maximisation, is rapidly leading toward an uninhabitable planet, as sustainability issues of theoretical concern for decades manifest themselves physically, particularly in regard to climate and energy:

Climate change

There is now unprecedented evidence that human carbon emissions from fossil-fuel consumption and land degradation are, on the balance of probabilities, warming the planet at an accelerating rate. Despite two decades of negotiation, virtually nothing has been done to address the problem, with human emissions accelerating in excess of the worst predictions. The impact is clearly seen in record global surface and ocean temperatures, rapid Arctic and Antarctic ice volume loss increasing permafrost methane emissions, ocean acidification and escalating extreme weather events. These major changes are happening at the 0.8oC temperature increase we have already experienced relative to pre-industrial conditions, let alone the additional 0.6oC to 3.5oC to which we may already be committed as the full effect of historic emissions is felt.

The inertia of the climate system, particularly the slow warming of the oceans, means that the results of our emissions today only become evident decades hence. Thus unless we take rapid action now, we may well be locking in irreversible climate change of catastrophic proportions for future generations; indeed we may have already done so. A difficulty in gaining acceptance of this thesis is that conventional economics heavily discounts such possibilities.

The appropriate method of handling high impact, low probability events, the so-called 'fat tail' conundrum, has been well explored by Harvard's Martin Weitzman, arguing that conventional cost benefit analysis is entirely inappropriate in such circumstances. The validity of this argument is beginning to be accepted by mainstream economists such as Paul Krugman.

Unfortunately the latest science suggests that the supposed low probability of these events has increased significantly. Given the serious implications for future generations, we should base solutions far more on ethical and moral values than on economics.

The inexorable conclusion is that the global response to climate change has to be moved to a genuine emergency basis, rather than being seen as incremental change to 'business-as-usual' which is still the focus of most current debate.

There will always be scientific uncertainties on an issue this complex, with year-to-year climatic variations continuing to be used selectively by deniers to discredit the mainstream science; but the overall trends are clear and they are all moving in the wrong direction. It is tempting to believe the deniers are right, but faced with the mounting empirical evidence, prudent risk management dictates we should not take the risk that they are wrong.

The Copenhagen COP15 meeting was not the failure generally portrayed in the media, albeit the outcome was not what many had hoped for. For the first time the real issues came on to the negotiating table:

- The impossibility of getting agreement among 193 countries via the UN process,
- The necessity for the top 6-12 emitting countries to take the lead in framing solutions; but based on current, not outdated, science.
- The prospect that the real objective must be to limit temperature increase to 1.5°C or less, relative to pre-industrial levels, rather than the 'official' 2°C,
- The beginnings of a technology transfer and financing package for the developing world

Certainly, legal binding undertakings were missing, but this was a forgone conclusion given that the developed world has yet to put forward any serious proposals to encourage developing country action, and that their own targets and policies are hopelessly inadequate and compromised.

There is a long way to go, but it is dawning on global leaders that the size of the challenge is far greater and more urgent than is being officially acknowledged. Unfortunately it may take some further natural disasters to drive the point

home; although that may occur more rapidly than expected if the latest evidence can be believed.

Gradually, the world is starting to understand that, if catastrophic outcomes and climatic tipping points are to be avoided, the real target for a safe climate is to reduce atmospheric carbon concentrations back to the pre-industrial levels of around 300ppm CO₂ from the current 392 ppm CO₂. This will require emission reductions in the order of 40-50 per cent by 2020, almost complete de-carbonisation by 2050 and continuing efforts to draw down legacy carbon from the atmosphere.

Looked at from a total carbon budget perspective, to have a less than 25 per cent chance of exceeding the 2°C temperature increase relative to pre-industrial levels, which is still the official political objective, the world can only emit a further 800 Gigatonnes CO₂ in toto from today, a budget which would be used up in less than 20 years. Accepting a 50/50 chance allows the budget to increase to 1,200 GtCO₂, used up in less than 30 years. (The Australian budget runs out in around five – eight years). If the temperature target has to be less than 2°C, the budgets are considerably lower.

The global constraint would only allow around 27 – 47 per cent respectively of existing fossil-fuel reserves (reserves recoverable with existing technology and prices) to be consumed. Why then do we continue to pour investment into expanding reserves of oil, gas and coal with increasingly risky and environmentally damaging ventures such as deepwater oil exploration and tar sands if we can only afford to burn a less than half of existing reserves?

Energy security

Cheap energy has been the cornerstone of successful societies for centuries. Take it away and societies historically, if they were sufficiently resilient, have broken down, re-organised at a lower energy level and moved on. If they were not resilient, they collapsed and disappeared. Today, just as economic growth for the bulk of the world's population is accelerating, the days of cheap fossil-fuel energy are ending, triggered by the peaking of global oil supply and the need to reduce carbon emissions to combat climate change. After years of denial, these realities are finally being acknowledged by official bodies such as the International Energy Agency (IEA) and some industry leaders. Unfortunately the full implications of the message have yet to penetrated the 'official future' of many national governments, particularly Australia.

The alternatives to our traditional energy mainstays of oil and coal range from natural gas, unconventional gas from coal seams and shale and new generation nuclear power to numerous renewable energy options, each of which have advantages and disadvantages. On the demand side, enormous opportunities exist for improvements in energy conservation and efficiency.

There is no 'silver bullet' to solve escalating energy security concerns, but much 'silver buckshot' whose development must be accelerated, ideally by a combination of regulatory and market mechanisms, to meet future needs. The critical policy requirement is that each option is assessed in the light of its true cost, benefits and risks, as discussed in Ian McAuley's chapter. Externalities such as carbon pollution must be fully internalised, inter alia removing the enormous subsidy the fossil-fuel industries have enjoyed since the Industrial Revolution. The competitive ranking of the new alternatives will only emerge gradually, hence the need to accelerate the overall innovation process but avoid picking winners. Each option will take a decade or more to make much impact, so time is of the essence. Whether other forms of cheap energy will emerge, or energy will remain expensive, is unclear, but there is little doubt that energy prices in the medium term will be volatile as the new order unfolds.

Peak oil

Peak oil is not just an economic issue, but a reflection of the physical barriers to energy supply we now face. We are not running out of either oil, gas or coal resources. The issue is how to convert those resources in the ground into flows to the market in an environmentally and economically acceptable manner.

Peak oil is the point at which it is no longer possible to increase oil production to meet demand, notwithstanding increasing prices, as evidenced by the stagnation of global oil supply since 2005. It results from the discovery rate of new oilfields falling far behind our escalating use of oil, and the fact that production from long established oilfields is depleting at faster rates than anticipated. As a result, we are forced to explore in more difficult conditions, with ever increasing risk and cost, as witnessed by the BP oil blowout in the Gulf of Mexico and controversy over tar sands production in Canada.

A critical metric is the 'Energy Return on Energy Invested' – how many energy units are produced for the energy invested in producing it. Historically, from an energy production perspective, this ratio has been 100:1 or more for large onshore oilfields; it is now declining below 5:1 in many new offshore

oil provinces and tar sands operations, and may fall below 1:1 when the true environmental impact is internalised, at which stage there is little point in continuing operations.

Peak oil, due to the immediacy of its impact, is likely to be the trigger that forces serious action on climate and energy security. The oil price spike to US\$147 per barrel in July 2008 warned us of the tightrope we are walking, probably triggering the GFC as it broke the financial back of debt-laden, gasoline-dependent consumers in the US. Prices subsequently dropped as the GFC destroyed oil demand, but have currently recovered to around US\$80 per barrel. A further rebound can be expected if economic activity strengthens.

Opinions vary widely on the evolution of global oil supply, and much will depend on the speed of recovery. It may well be that global supply by 2030 is 20-30 per cent below current levels a traumatic change for a world wedded to oil, particularly in sectors where substitution options are limited, for example for private transport and aviation.

Coal

Coal is the most critical factor in solving the energy security and climate change dilemma. It is the largest, cheapest and most widely-available fossil-fuel resource, but has the worst environmental impact, with emissions double that of gas per unit of energy. Unless means can be found to capture and store those emissions securely, the coal industry worldwide must shut down rapidly if catastrophic climate change is to be avoided. Clean Coal Technology (CCT) and geological Carbon Capture and Storage (CCS) are seen as the means of securing coal's long-term future, to the point where they have become unquestioned articles of faith on the part of industry and government. Substantial investments are being made in research and development of both CCT and CCS, with high emission facilities, such as power stations, being built 'carbon-ready' so that CCS technology can, in theory, be added as soon as it is available.

Unfortunately that faith looks increasingly misplaced. CCS is established technology in the oil and gas industry where it has been practiced safely for decades by storing carbon dioxide in the reservoirs from which it was originally extracted with the oil and gas. However, sequestering carbon emissions on the scale now required by the climate science means the establishment of an industry the size of the world oil industry, storage in geological formations that have never demonstrated the security and stability of oil and gas reservoirs,

solving substantial reservoir engineering problems and, unlike oil and gas practice, transporting the material large distances from source to storage. This has to be done at scale in less than two decades to have any real impact on the climate problem. At present there are only five commercial scale projects worldwide, none in the critical power generation area, and technical progress is painfully slow. The IEA have highlighted the need for 100 projects by 2020, 800 projects by 2030, and 3,400 projects by 2050; an extremely demanding target representing an investment to 2050 of around US\$5.8 trillion.

CCT refers to a range of technologies, such as Integrated Combined Cycle Gasification and Supercritical Pulverised Coal Plants, aimed at reducing the environmental impact of coal. However, it is an oxymoron in that coal does not become clean, rather emissions are reduced typically by 20-40 per cent and efficiency is increased; which is valuable, but does not solve the fundamental problem of coal's high emissions.

Hence the need for objectivity in developing these proposed solutions. Whilst research on CCS and CCT should continue, it is doubtful they will provide the hoped-for panacea. Given the climate change risks now emerging, it is an extremely dangerous strategy to place most of our eggs in these baskets as Australia is doing, and to lock-in the construction of new high-emission facilities, CCS-ready or not, before the viability of the technology is assured.

As *The Economist* put it:

“Politicians should indeed encourage investment in clean technologies, but direct subsidies are not the way to do it. A carbon price or tax, which raises the cost of emitting carbon dioxide while leaving it up to the private sector to pick technologies, is the better approach. CCS is not just a potential waste of money. It might also create a false sense of security about climate change, while depriving potentially cheaper methods of cutting emissions of cash and attention—all for the sake of placating the coal lobby.”

Gas

Much store is placed on the future role of Liquefied Natural Gas (LNG), Coal Seam Gas (CSG) or unconventional gas from shale beds, as a transition fuel to the low-carbon economy in replacing coal, due to gas having roughly half the carbon emissions of coal. However gas is not without its problems in the context of a climate change emergency response – even halving emissions is inadequate, but gas also has some unexpected consequences.

Coal burning emits not just carbon, but also aerosols, tiny particles which are suspended in the atmosphere and have a cooling effect. Cleaner-burning gas does not emit aerosols, so if coal use drops, to be replaced by gas, the level of aerosols drops correspondingly and hence the cooling effect reduces. One unintended consequence therefore of the use of gas may be a relative increase in global temperature due to the removal of cooling aerosols. This is not a reason to delay the reduction in coal burning, but it is a factor which has to be considered in developing a transition plan to a low-carbon future.

CSG and unconventional shale-gas also have complications. They rely on fracturing geological formations with fluids to release gas trapped in the coal seam or rock pores. Depending on the geological strata, this may result in a rapid production build-up, but an equally rapid production decline, necessitating many wells being drilled over an extensive area using large amounts of water, with potential risks to aquifers and land use. All of which requires high standards of regulation and compliance, with associated costs, if these new industries are to operate responsibly. A very different operation from conventional oil and gas production, which is relatively localised.

A further factor is the leakage of gas prior to combustion. Whilst gas when burnt has roughly half the emissions of coal, if gas is leaked to atmosphere pre-combustion, it has a warming potential around 25 times that of CO₂. Hence a leakage rate of around 3 per cent negates the advantage gas has over coal from an equivalent warming perspective. Typical leakage rates appear to be in the 1.5 – 2.5 per cent range, so gas may not have the advantage over coal which is generally assumed. It also emphasises the need for high standards of performance to prevent leakage as the use of gas increases.

Nuclear

The renaissance of the nuclear industry engenders strong emotion, both for and against, in the light of historical accidents such as Chernobyl and Three Mile Island, the risk of nuclear terrorism and weapons proliferation and the legacy implications of nuclear waste. Nonetheless major investments in new nuclear plants are being made particularly in the developing world.

New nuclear technologies promise much safer standards than existing plants, including possibly the ability to use up existing nuclear waste. However these technologies are still in the embryonic stage and far from commercial application.

Given the scale of the climate challenge ahead, it would be unwise, a priori, to exclude nuclear options from the possible solutions. They should be considered, provided the full life-cycle environmental costs and risks are taken into account.

GLOBAL DISCONTINUITY

Other key factors, such as biodiversity, water and food are also reaching global limits, particularly biodiversity loss which is proceeding 100 to 1000 thousand times faster than the natural level, and at great economic cost.

The overall impact through the 20th Century is that humanity now requires the biocapacity of almost 1.5 planets to survive. Unless action is taken to change our ways, by 2030 we will require two planets. So we are rapidly eating up our natural capital and creating the conditions for escalating global conflict as we squabble over increasing scarcity.

There is much discussion on the technical dimensions of this challenge such as climate, energy, food and water, but these are only symptoms. The underlying drivers are population and economic growth which are creating the great discontinuity between the 20th and 21st Century as we are forced to address what is, in essence, a global sustainability emergency.

The key question for individual nations now is their preparedness to face up to this challenge realistically. Whether they will lead, prepare themselves and seize the enormous opportunities ahead as energy systems, societal and economic values are re-booted, and the world moves on to a low-carbon, sustainable footing, or allow vested interests to dominate, deny and delay, facing straightened circumstances as the impact of climate change and scarcity takes an increasing toll on their environment, economy and society.

Further, will they acknowledge that the capitalist model as we know it, and the economic growth that goes with it, is no longer sustainable. Capitalism is arguably the most effective mechanism the world has so far known for providing goods and services and creating financial wealth, but as the GFC demonstrated only too well, it is now under attack from itself and its lack of underlying principle. Capitalism should have a major role to play in achieving global sustainability – but what form should it take?

Some nations, and businesses, clearly have got the message – China, South Korea, the US and some European countries for example, are positioning themselves to be world leaders in making the transition. Others, generally the resource-rich countries, continue to drag the chain in the hope that their conventional business models can continue indefinitely, ironically on the back of Chinese growth!

The debate is invariably pitched in the context of the problems and costs of moving away from our comfort zone of business-as-usual. What it ignores is first that business-as-usual is no longer an option, and second the enormous opportunities ahead, as the world is re-jigged for a genuinely sustainable future.

“The 21st Century will, in fact, be the Age of Nature. We’ll learn, probably the hard way, that nature matters: we’re not separate from it, we’re dependent on it, and when there’s trouble in nature, there’s trouble in society.”

– THOMAS HOMER-DIXON,
‘THE UPSIDE OF DOWN’, P.13

WHITHER AUSTRALIA?

So how is Australia placed to negotiate this discontinuity?

We have had a dream run since the end of World War II, built on our natural wealth. Despite the occasional hiccup, our economy has expanded year after year, with increasing prosperity. Much of our success has been built around supplying agricultural products and raw materials to the expanding economies of the world, particularly in Asia – initially Japan, then Korea and South East Asia, now China and India. Understandably we are proud of being world leaders in agriculture, mining and processing, but we have also created a strong and vibrant society in many other areas, all built around a capitalist, market economy model.

Our resource base is formidable and expanding. Not only do we have substantial energy resources of gas and coal, but we have the world’s largest uranium and thorium resources and enormous untapped renewable energy – solar, wind, ocean, geothermal and bioenergy. Beyond that, iron ore, other metalliferous minerals and agricultural assets abound

However as McAuley points out, as the discontinuity unfolds, that bounty may well become our Achilles heel unless carefully managed. Much of our exports are carbon-intensive – thermal and coking coal, alumina, natural gas, with coal being the largest export earner of around \$36 billion in 2009-10. Our domestic energy system is highly carbon-intensive, largely a result of readily available and inexpensive coal. Our carbon emissions are correspondingly high, around 19 tonnes CO₂ per capita in 2007 amongst the highest in the world.

A weak point is oil, where Australia has a particular vulnerability. We are around 50 per cent self-sufficient in oil, declining rapidly unless new discoveries save the day which seems unlikely. We rely on long supply lines from Asian refineries for around 85 per cent of our daily product use, offset by high exports. We do not comply with the requirements of IEA membership to maintain a 90 day net import strategic petroleum reserve, relying instead on operational stocks and just-in-time delivery. With a small, geographically dispersed population in a large land mass, we are heavily dependent on transport fuels. The cost of our oil and gas imports is now close to twice our oil and gas exports, with high coal exports saving the day. This will represent an increasing burden on our current account deficit as our level of self-sufficiency declines.

Despite this vulnerability, peak oil is not on the Federal Government agenda. While some state governments have taken it seriously studies at the Federal level have been dismissive, even though it may have far more impact in the short term than climate change.

If the world now moves rapidly to a low-carbon footing due to climate change, whilst facing increasing oil scarcity due to peak oil, many of our traditional advantages turn into major strategic risks – that is risks beyond our control which have the potential to fundamentally change our way of life, and undermine our economic strength.

Whilst our raw material exports will not cease overnight given likely strong demand from the developing world, a shift toward low-carbon alternatives will seriously disadvantage Australia if carbon sequestration technologies fail. Similarly, we may not find it that easy to secure the oil imports we require. Domestic alternatives, based on our coal and gas resources, such as Coal-to-Liquids (CTL) and, to a lesser extent, Gas-to-Liquids (GTL) technologies are likely to be expensive and environmentally damaging.

In agriculture, Australia is already experiencing the impact of changing temperature and rainfall patterns, which may well be the result of human-induced climate change, with serious drought in many areas and overabundance of rainfall in others fundamentally altering farming patterns and water supply. As the Garnaut Review pointed out:

“Australia has a larger interest in a strong mitigation outcome than other developed countries. We are already a hot dry country; small variations in climate are more damaging to us than to other developed countries.”

On the positive side, we have enormous undeveloped renewable energy resources, and there is great potential for the biological as opposed to geological sequestration of carbon, which has substantial benefits for agriculture, and possibly for our coal industry.

A JANUS NATION

The scenario, of rapid climate change combined with the onset of peak oil, while becoming part of mainstream thinking overseas, is still regarded as extremism in Australia, and not as part of the ‘official future’.

Ironically, we have some of the best scientific and analytical advice in the world on the implications of climate change and energy supply, in studies such as the Garnaut Climate Change Review and extensive work by the CSIRO and other bodies. They indicate the need for rapid change – advice which is blithely ignored.

On the other hand, the vested interests defending the status quo, particularly those linked to some sections of the resource industries, are amongst the strongest in the world, not surprisingly given the importance of those industries historically to the development of Australia and the resulting power they have accrued.

The resistance to accepting the implications of climate change is well documented, as McAuley points out in *Living off our resources*. At virtually every turn in the tortuous path of climate reform over the last two decades, the vested interests have dominated, determined to slow reform, maximising compensation and escape clauses, without regard to the longer-term implications. Gradually, as the evidence has mounted, outright denial has given

way publicly to grudging lip service to the need for action, whilst privately delaying tactics continue.

Successive governments have either not believed the science, or have been brow-beaten into adopting minimalist reform agendas, which are largely meaningless in the context of the real problem. Statesmanship and leadership are notably absent.

Environmental NGOs have, in the main, opted to work “in the government tent” in finessing a minimalist reform agenda, rather than insist on meaningful reform, on the basis that it is better to get something started and then modify it, than nothing at all. That the history of major reform in Australia is that, once implemented, it takes at least a decade to make significant change – a decade we no longer have. The abject failure of that strategy has been demonstrated by the backsliding of the Federal government post-Copenhagen in shelving their emissions trading scheme, whilst other countries move forward.

Other sectors of business are taking a far more positive approach to the changes and opportunities ahead and are acknowledging the risks of inaction. From all sides though, comes the demand for certainty to facilitate investment decisions. But ‘certainty’ if based on the wrong definition of the problem, is bound to unravel rapidly.

Meanwhile the resource sector, buoyed up by bullish forecasts of coal and gas demand from organisations like the IEA are forging ahead with fossil fuel developments. These include the doubling coal exports over the next 20 years, the expansion of LNG exports and the establishment of a coal seam gas industry with major investment in mines, railways, ports and processing facilities. There are however no proven means of sequestering the associated carbon emissions.

The investment in alternative clean energy is miniscule in comparison. The strong research capability which Australia developed in many renewable energy areas has departed to more fertile investment climates overseas.

OUR GREAT STRATEGIC ERROR

So Australia ends up in the worst of all possible worlds. The science is clearly indicating the need for radical emission reductions. The vested interests ignore these calls, continue to undermine any sensible reform and, by special pleading

render ineffective even the minimalist reform proposed in the interests of short-term advantage. In the process, as McAuley discusses, sound policy instruments such as emissions trading are discredited due to the political horse-trading as governments bow to vested interest pressure. Lack of certainty on a carbon price stunts the growth of fledgling alternative energy industries, stifles consumer behavioural change and, combined with conflicting regulatory measures, leads to non-optimal short-term investment decisions.

Business demands leadership from government whilst, with a few notable exceptions, showing none itself, and both main political parties lack the stomach to take on the vested interests. So we fall back into the comfort zone of our dig-it-up and ship-it-out high carbon mindset. In so doing, we are making arguably the greatest strategic error in Australia's history.

For while Australia is moving backwards on climate change reform, the rest of the world is accelerating. The Chinese, other Asian countries, Europe and the US are all now vying for leadership in the low carbon economy. A decade hence, with the climate science better understood, it is likely that the incremental demand for our high carbon products will evaporate and the bullish IEA demand forecasts, yet again, will never eventuate. Australia at that point will be left with a large inventory of stranded assets, minimal investment in low carbon alternative energy and little resilience to weather the impact of both climate change and peak oil.

The irony is that Australia has some of the best low carbon resources and opportunities in the world, which we seem determined to ignore.

The time has come for a radical re-think of our strategy for the 21st Century. However it is not good enough just to tinker at the edges of current discredited environmental and energy policies – root and branch surgery is needed. Furthermore, this must be done on an integrated, sustainable basis – what is the realistic carrying capacity of Australia given the societal, environmental and economic pressures likely to confront us?

The pre-requisite is vision and an honest acceptance of the challenge we face.

RE-THINKING AUSTRALIA'S 21ST CENTURY STRATEGY: Key policy settings for a new Government

1. Recognise that population and economic growth have created a sustainability emergency unique in world history. As a result, we are in the midst of a global discontinuity in which societal values, growth, economic and business concepts have to be restructured urgently. In this context, while the day-to-day business of government will continue, serious effort must be allocated to a fundamental review of short and long-term national strategy as 'business-as-usual' is no longer an option. Ideally this should be done with bi-partisan support, separate from adversarial politics.
2. Initiate debate on a comprehensive sustainability strategy for Australia, encompassing inter alia climate, population, energy, biodiversity, resource scarcities, economic, tax and business concepts. McAuley argues for the focus to be on integrated policy, rather than treating issues in separate silos as at present. The objective is for Australia to prosper within realistic national and global carrying capacities, with an emergency plan to achieve the transition to a sustainable future effectively and equitably.
3. Climate change must be treated as a priority as it directly affects Australia's future even in the short term. The lag effect means that we may well be locking in irreversible changes today which will have catastrophic implications for future generations. The formulation of the climate 'problematique', on which current global and national policy is based, is almost a decade old. In the interim, scientific understanding and the empirical evidence for anthropogenic climate change have progressed markedly, to the point where it is clear that the climate challenge is far greater and more urgent than we assumed. The gulf between current science and policy is widening dramatically. In short, we are trying to solve the wrong problem with the wrong policies. Until we honestly define the problem, with the appropriate caveats on risk and uncertainty, realistic policy and solutions will not be forthcoming.

Current science suggests that, if catastrophic outcomes and climatic tipping points are to be avoided, the real target for a safe climate is to reduce atmospheric carbon concentrations back to the pre-industrial levels of around 300ppm CO₂ from the current 392 ppm CO₂. This requires the emission reductions and timeframe discussed earlier in this article. The 'climate problematique' should be re-defined in these terms.

4. To maintain the currency of this definition, initiate a regular, objective, statement on the latest climate science and implications, free from political spin, published by authoritative bodies (Chief Scientist, CSIRO, international linkages) which is ongoing, not just in response to events such as Copenhagen or denialist campaigns.
5. Be prepared to challenge conventional thinking and to adopt radical solutions as appropriate. The entire tenor of the climate debate, and energy security, revolves around incremental change to 'business-as-usual', whereas the evidence indicates climate change must be treated as a genuine emergency. Many will argue that this is unnecessary extremism and that change of the extent indicated above is impossible, but that is only so when viewed with current mindsets. We have the solutions, given the will to honestly face the size of the challenge, but they are currently being ignored. Our preparedness and ability to take emergency action was demonstrated with the GFC; there is even more reason to apply the same rationale to climate change.
6. Given the warning of catastrophic irreversible tipping point scenarios, based our response more on moral and ethical values than on quantitative economics. Economic analysis is valuable in charting the most efficient pathway to reach the targets, but it should not be the prime consideration in determining those targets. Far more attention should be given to the "fat tail" conundrum of handling high impact, low probability events where conventional cost benefit analysis is inappropriate.
7. Re-frame climate policy accordingly. The CPRS is a disaster which cuts across all sensible design concepts for effective emissions trading. If implemented, it would impose a major cost on the economy for minimal reduction in emissions; it should be dropped forthwith. We need a 'root-and-branch' redesign of climate policy built around the 'problematique' set out above, with a balance of market and regulatory mechanisms. The rapid introduction of a carbon price is essential, to provide investment certainty and initiate behavioural change; ideally via a simplified and efficient emissions trading mechanism with minimum compensation and escape clauses. This should incorporate both a realistic short-term starting price and a long-term objective. If this proves impossible due to the historic baggage of recent negotiations, it should be abandoned in favour of a simple 'fee and dividend' mechanism to minimise rent-seeking and retain public credibility.

8. Develop a balanced portfolio of solutions, with fair transition arrangements but focusing on the opportunities and benefits of creating new industries rather than the problems and costs of moving away from the old. At present the vast bulk of climate policy is aimed at protecting our traditional carbon-intensive industries, with token gestures toward the low-carbon alternatives which represent our future. This must be re-balanced to direct more seed funding to serious alternative technologies, including consideration of new generation nuclear options.
9. No carbon-intensive projects should be approved forthwith, either for domestic or export use, unless they incorporate proven, secure carbon sequestration technologies. In the absence of demonstrable research progress, funding for CCS and CCT should be cut back.
10. Take genuine global leadership. In addition to rapid, deep domestic emission reductions, actively promote concrete proposals to involve the developing world. Moving toward equal per capita emissions globally, as suggested by the Garnaut Review and others before. Dispense with the conditional, “we’ll drop ours if you drop yours” approach to emissions reduction.
11. Review Australia’s vulnerability to peak oil based on the latest information. Design integrated climate/peak oil strategies accordingly. Global climate constraints only allow around 27 – 47 per cent respectively of existing fossil-fuel reserves to be consumed. Continuing investment into high risk, low efficiency and low EROEI options, such as deepwater exploration, shale and tar sands, and Coal-to-Liquids should be discouraged in favour of low-carbon alternatives.
12. Explain honestly to the community the sustainability emergency and potentially catastrophic climate risks we now face, but equally the enormous opportunities the solutions open up, with education to develop the platform for commitment to the major changes ahead.
13. Take rapid, decisive action to implement a low-carbon economy.

“It is no use saying, ‘We are doing our best’. You have got to succeed in doing what is necessary.”

– WINSTON CHURCHILL, 1954

Find full endnotes and comment online at: <http://morethanluck.cpd.org.au>

“In a climate change world, a water plan such as that for the Murray-Darling Basin, has to be capable of refinement and real-time learning.”

**From water supply
to water governance**

By Lee Godden & Ray Ison

WATER IS A PERENNIAL public policy issue in Australia. Remnants of the dream of 'making the desert bloom' remain in our contemporary 'supply-side' policies, which favour technological and engineering 'solutions' and focus more on the country than the city.

Political choices about water have been largely framed as the need to resolve water supply crises, to confront over allocation and ensure sufficient water for food production and regional enterprises. Generally speaking, the water policy problem is ascribed to the physical lack of water supply rather than to institutional, organisational and community practices for managing water. Only recently has the political pendulum begun to swing towards considering environmental flows and the sustainability of our aquatic ecosystems.

Although science and technology has served us well in the past, and it has provided impetus for growth and development based in large measure on developing water supply infrastructure, simply continuing the same policy direction is no longer good enough. Much money and a great deal of effort has been spent to achieve water policy objectives in the face of pressing concerns such as climate change but on-the-ground implementation and effectiveness of policy decisions still seem a long way off. The issue is more than just a policy or implementation gap. It is a deeper problem of 'knowing' about water and its social purpose within the Australian national psyche.

MYTHBUSTER: Australia has the right policy mix for managing water

The systemic failure of water governance of the Murray Darling Basin and the rapid turn to technological fixes such as desalination plants in Australia's main cities (Barnett and O'Neill describe this as 'maladaptive practices'), is evidence we still have much to learn about developing policies and practices for sustainable water managing. More of the same is unlikely to serve us well in the longer term.

Water managing, as opposed to the more deterministic water management, provides an alternative platform for considering long term ecologically sustainable water governance.

THE STORY SO FAR

Water law and policy reform

The National Water Initiative builds upon Council of Australian Governments (CoAG) initiatives by developing guidelines and principles for national water management. The National Water Commission is charged with leading reform. In 2009, the Commission found that despite 26 years of water policy reform and substantial amounts of funding, results to date have been less than encouraging. Initial evaluations of the national water reform agenda have been broadly supportive of its coverage, intent and attempt to integrate ecological, economic and social imperatives, yet cautious about the institutional capacity to implement the reforms.

Water policy is a classic example of a wicked problem (see the definition of wicked problems in the 'Governance that works' chapter) or a complex adaptive system. However, because it is rarely framed this way, all too often Australians only become aware of the systemic nature of water in the face of crisis, as is the case with water restrictions.

Water governance

A wide range of rules govern water allocations, entitlements, environmental flows and rights. Add to this the hierarchy of local, state and federal responsibilities and it is no wonder the complexity of water governance can become overwhelming. Effective water governance is essential to achieving national water policy objectives. Accordingly, the following challenges include suggestions for policy implementation to support the national water reform process, based on principles for sustainable water managing:

CHALLENGE #1: Privilege strong ecological sustainability for water

Australia's current water management is unsustainable; although sustainability is a slippery term that can justify a wide spectrum of policy responses. Hussey and Dovers describe the National Water Initiative as an ambitious attempt to operationalise the modern idea of sustainability in the context of water management. However implementation difficulties show significant deficits in capacity and knowledge. The use of ecologically sustainable development will accord higher priority to ecological integrity in water. Even so this formula remains problematic because it invokes 'balance' concepts. Inevitably balance becomes code for prioritising short-term political considerations. This is inadequate for managing the complex dynamic between people and the water environment.

Implementation

To move from ecological sustainable development as the policy goal for managing water to achieving ecological integrity for fresh-water ecosystems across Australia.

CHALLENGE #2: Develop adaptive water managing and social learning

If strong sustainability practices are to drive water reform, then adaptive and systemic approaches need to be embedded across the spectrum of decision making. Adaptive managing has rarely been effectively implemented. Where successful, it has been situated within adaptive planning, designing and governing. Thus, successful implementation of adaptive managing must complement 'social learning' as a governance mechanism. Social learning, when applied to water governing, is:

- Convergence of goals, criteria and knowledge leading to awareness of mutual expectations and the building of relational capital among stakeholders
- Co-creation of knowledge, which provides insight into the means to transform a situation
- Change of behaviours and actions resulting from understanding something through action ('knowing'), which leads to concerted action
- Thus, social learning is critical to transform a situation.

Implementation

To institute adaptive and systemic water managing to create institutional arrangements that enable the co-evolution of water practices across government, industry and the community.

CHALLENGE #3: Shift from a stationary to dynamic and systemic process

The National Water Initiative advocates strategic water planning. Yet, much water planning and assessment remains based on the view that 'natural systems fluctuate within an unchanging envelope of variability.' By contrast, authors in Science have argued that while both scientists and decision-makers have accepted the impacts of human disturbances and climate variations on the water cycle, historically these effects have been 'sufficiently small to allow stationarity-based design.' In other words, that the predictions underpinning design are relatively static and processes can be engineered to these static specifications.

Such assumptions need to be reconsidered. In a climate change world, a water plan such as that for the Murray Darling Basin, if it is to be effective, has to be capable of change and refinement and real-time learning in the face of surprise and breakdown. Water managing must embrace dynamic approaches and be capable of improvisation. Australia does not have the institutional arrangements to act deliberately in real time to manage water holistically over the long term.

Implementation

To adopt adaptive and systemic constructs for water planning and institute a model of decision making to accommodate high degrees of uncertainty.

CHALLENGE #4: It is not always possible to ‘get more from less’

We need to resist a technological fix that promises ‘more from less’ in the face of highly variable and uncertain climatic conditions. In cities, decentralised initiatives around water-sensitive urban design include innovative uses of storm water and recycled water. Such localised responses compete with major water infrastructure projects such as desalination plants which are adopted as a reaction to ‘step change’ predictions of decreased water availability. Rather than ‘crisis’ reactions, there is a need to employ a full range of governance tools to meet the challenge of water supply variability, including demand-side options.

Implementation

To give renewed attention to demand-side water managing to break with path dependency that emphasises technologically-dominated supply-side solutions.

CHALLENGE #5: Integrated decision-making

One result of the adoption of market-based regimes has been a growing role for the non-government sector in water. There has been an increasing spread of organisational responsibilities for regulation of water including, for instance, water price-setting by Commissions set up to combat anti-competitive practices. Given changing power dynamics, it is critical to ensure ‘joined up’ decision-making which considers the financial implications of water project development. Integrated decision-making must reflect the inter-connectivity of the water cycle, so that groundwater and overland flow are not regarded as the solution to surface water shortages.

Implementation

To institute an integrated approach to decision-making in water that reflects the interlinking social, economic and cultural systems that interact with water.

CHALLENGE #6: Resolve the fiefdoms in water governance

Despite many years of promoting integrated water management, disparate regimes for governing water remain. These are separated across jurisdictions and regions. The difficulty which such institutional 'fiefdoms' create are well known, and in part were the impetus for reforms which created the Murray-Darling Basin Authority.

Matching organisational arrangements with 'natural systems' can help rationalise the structures for water management. The advent of Catchment Management Authorities (CMA) as the basis for natural resource policy implementation is a welcome development. But current trends see decentralised CMAs losing funding to traditional hierarchical governmental structures, with a resulting centralisation of decision-making.

The demarcation of administrative responsibilities across local and state government boundaries and their intersection with water authority and private interests represents another wicked policy problem requiring effective governance. This complexity can constrain social transformation and produce unintended consequences including an inability to translate policies into local action, and the loss of social and relational capital.

Implementation

To resolve longstanding tensions in organisations which have responsibilities for water through systemic institutional innovation.

CHALLENGE #7: Water in the market: what it can and cannot achieve

Ongoing policy transformations have incorporated water trading, water markets, standard-setting and pricing around market measures. Under this model, water governance uses a new regulatory system based on 'purposeful self regulation'; designed to change behavioural and institutional patterns associated with water use by 'moving it to highest and best value use'. This reorganisation has not managed to displace many

entrenched institutional and private sector practices which distort market moves to optimise value. Market-based mechanisms have contributed to reshaping water governance in terms of structural adjustments, and meeting the variability of supply in defined contexts.

Nonetheless, it is important to recognise the limitations of market instruments when dealing with 'public goods' resources like water. A strong role for governments remains in setting meaningful parameters in which market measures operate, such as defining realistic cap limits for water trading. More generally, governments and ultimately tax payers will retain responsibility – and pick up the tab for - market failures.

Implementation

To develop a regulatory framework for water managing that acknowledges the contribution of water-related market measures but recognises the limitations of any one regulatory tool.

CHALLENGE #8: Build civic engagement in water governance

In 2009, the High Court of Australia confirmed that water is a common resource to be managed in the public interest. Water policy and law reform has progressively moved to a more equitable concept of water sharing as a component of strategic water planning. In concert, the older focus on top-down institutional arrangements must be complemented by collaborative community-oriented management, which shapes how water is understood and valued by civil society within Australia. Social practices around water pervade everyday life and the relationships between water consumers and the myriad of institutions which manage water. While recent reform has emphasised community involvement there has not been a corresponding commitment to detailed planning of the philosophy, role, responsibilities and the process to support effective community involvement over time.

Generally, community interests are only assigned consultative roles, while the core decision-making remains with traditional water authority structures. There is an urgent need to broaden the constituency of civic engagement.

Implementation

To build citizens' trust in water institutions and explore governance arrangements that balance bottom-up and top-down processes.

CHALLENGE #9: Integration of social learning about water values

Understanding water in its ecological context requires breaking with the view of water as a 'quantity' of a resource, towards an appreciation of it as an integral process within landscapes and lives. Reassertion of the technological fix approach in a climate change world simply re-contextualises an old discourse, without enhancing cultural 'knowing' about water. How people imagine rivers futures contributes to our humanity, as well as serving a physical and utilitarian function. Water reform must be framed around cultural values in order to build social consensus and generate social learning, for concerted action towards water's sustainable use.

Implementation

To encourage social learning as an approach to water policy reform in order to generate new practices as a result of understanding water as a cultural phenomenon.

Find full endnotes, an extended version of this chapter and comment online at:

<http://morethanluck.cpd.org.au>

“We need to become a real developed country, earning our keep through our (renewable) human capital and entrepreneurship.”

Living off our resources

By Ian McAuley

WILL AN EMISSIONS TRADING scheme or a carbon tax harm our economy? What economic sacrifices must we make if we are to protect the Murray-Darling Basin?

Such presentations of policy choices, implying tradeoffs between social, environmental and economic objectives, are commonplace. Governments and corporations are urged to adopt 'triple bottom line accounting', reporting separately on social, environmental and economic performance. Government departments are structured around such classifications, with public policy (or campaign manifestos) emerging through compromises between conflicting social, environmental and economic objectives. The 2010-11 Budget, for example, with its tight fiscal discipline and its cutbacks for environmental programs, could be seen as a win for the economy and a loss for the environment.

However convenient as such classifications may be, they contribute to a way of thinking which can lead to poor policy, because realistically there is no such separation.

If economic policies do not contribute to the people's welfare, what is their point? There will always be debate about whose welfare should have priority – children, working families, the aged – and about how we trade present costs and benefits for future costs and benefits. To suggest however that economic activity has some virtue in its own right is to seriously confuse means and ends. The notion of some trade-off between 'social' and 'economic' objectives makes no more sense than the (apocryphal) statement attributed to an officer in the Vietnam War: "we had to destroy the village in order to save it".

Similarly, the notion of a trade-off between economic and environmental policy overlooks the nature of economic choices. Economics is concerned with how we use scarce resources. The scarcest resources of all are what we call 'environmental' resources – our atmosphere, oceans, water, soils, and ecological systems.

Unfortunately, the political conflicts over the Rudd Government's proposed Emissions Trading Scheme (ETS) were about trade-offs: opposition to the ETS focused on its economic cost.

One can blame political opportunism or sloppy thinking in Opposition ranks, but the point is that the idea of a trade-off is so embedded in our thinking that the Rudd Government felt it was unable to turn the debate around.

We have become conditioned to thinking about economics in terms of a few simple indicators, the main ones being Gross Domestic Product (GDP), inflation, employment, interest rates and public debt, while ignoring other economic indicators such as poverty, ignoring what is not easily measured, such as human happiness or the state of environmental assets, and ignoring the great complexity of the way people interact with one another and with nature.

James Scott of Yale University calls this process “thin simplification”. The policy advisor seizes on a few simple indicators, forgetting that these indicators are mere abstractions incapable of capturing the complex reality of the systems to which they refer, and, in time, comes to see nothing else. The policy advisor, the politician, and the journalist believe that any policy which detracts from the performance of these indicators is poor policy. Simon Kuznets, who, 80 years ago, developed the conventions of national accounting that we still use today, warned that the welfare of a nation cannot be inferred from such measures. Today there are people like Joseph Stiglitz working on more inclusive indicators of economic progress, but in our policy development we are still locked into limited ways of thinking.

We have come to see our prosperity as a by-product of economic good fortune, and have come to believe that attending to environmental concerns is a luxury we can afford only if we put the economy first. Capturing this spirit, in moment of unguarded candour, referring to the Government’s proposed ETS, the Opposition Leader Tony Abbott said:

“Basically this is a tax on the way we live because the way we live depends on energy, electricity, petrol – this is the ultimate lifestyle tax.”

The reality is that we are living off our (and the planet’s) capital. We need a fundamentally different economic structure that will make best use of all our resources.

THE LUCKY COUNTRY

Greece with minerals

By the human development index, a UN indicator combining life expectancy, GDP per capita, education and living standards, Australia does well: out of 182 countries it is second only to Norway. Australia can also boast of being one of the very few OECD countries to have escaped a recession during the Global Financial Crisis (GFC).

But is such economic performance sustainable?

Australia is an unusual country, once described as a third world country temporarily enjoying a first world living standard. Throughout our post-1788 history, there have been bouts of good fortune—the opportunity to supply world markets with wool, gold, beef, wheat and, for the past 40 years, coal, iron ore and other minerals. As we have depleted one resource, we have turned to another just as it has been needed by other countries. Donald Horne dubbed Australia as *The Lucky Country* in 1964, even before most Australians had heard about the Pilbara and when Roxby Downs was only an isolated and dusty cattle station. While most other prosperous countries have built their economies on efficient use of human capital, Australia’s prosperity, from the time the Macarthurs started exporting wool, has owed much to the exploitation of non-renewable resources. We have exported our resources with minimal processing, and have imported our needs from countries with more developed industrial structures.

Ireland	231	United Kingdom	84
Switzerland	201	United States	83
Korea	182	Slovak Republic	83
Sweden	126	Iceland	77
Japan	125	Italy	72
Finland	123	Canada	62
Hungary	118	Norway	49
Germany	115	Poland	49
Denmark	110	Portugal	47
France	109	Luxembourg	45
Mexico	108	Spain	44
Netherlands	106	New Zealand	27
Belgium	102	Australia	25
Czech Republic	90	Turkey	21
Austria	88	Greece	19

Source: OECD in Figures 2009, “High technology” defined as aerospace; office and computing equipment; drugs and medicines; radio, TV and communication equipment; medical, precision and optical instruments.

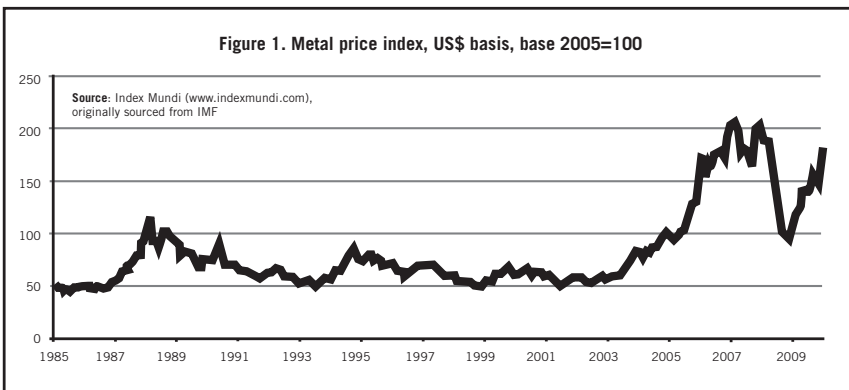
To illustrate, Table 1, drawn from OECD data, shows exports of the products of high technology industries as a percentage of imports of those same products. Australia is near the bottom of the table, just above Turkey and Greece.

One indicator cannot paint a full picture, and to suggest that Australia is devoid of a high technology sector does an injustice to those few firms which have succeeded in world markets. Furthermore, it is unreasonable to paint our mining sector as purely extractive; in fact most modern mining operations involve complex technologies, and some mining firms have an element of downstream processing. Other indicators, such as patent activity, however, tell a similar story: Australia's industrial structure is not that of a developed country. Greece is in trouble because it has been living beyond its means; we are yet to realise that we too are living beyond our means.

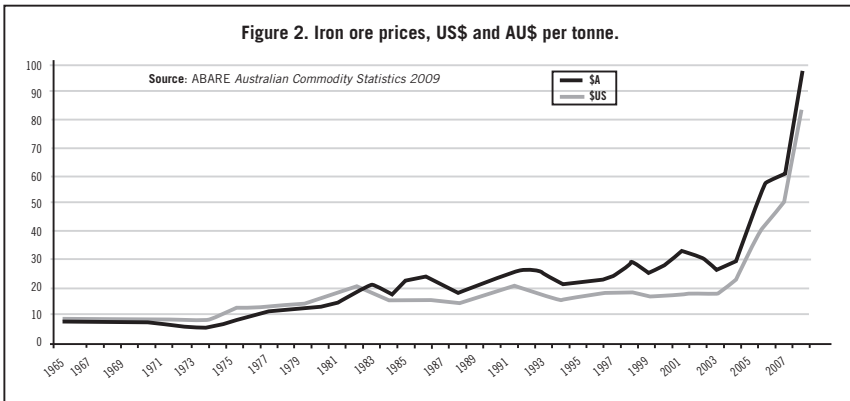
Of course, as became evident in the debate about a resource super profits tax, there is a view that because Australia has very large reserves of certain minerals, including coal, iron ore, copper and uranium, we can continue indefinitely with our current resource dependence.

Even if such resources are in abundant long-term supply, however, there are costs of such dependence. Those costs include economic volatility, a loss of control, and a lopsided economic structure.

Economic volatility arises because of the nature of world commodity markets. As the world goes through inevitable business cycles, and as some countries have rapid growth spurts as has been happening in China, prices of finished goods – eg, ships, cars, whitegoods and computers – fluctuate. The fluctuations in the prices of raw materials that go into these goods are much more marked,



As the Australian currency has been more volatile than most other currencies (another consequence of commodity dependence), the Australian dollar prices of commodities have fluctuated even more widely. Figure 2 shows long-term prices of iron ore, in Australian and US terms.



Due to this commodity dependence, Australia's economy is heavily reliant on the fortunes of the world economy. It used to be said that when America sneezes, Australia catches a severe cold. The same could now be said about our dependence on China's health. Australia's luck to date has been that as certain markets have matured, new ones have arisen, but there is no guarantee such luck will hold. Even if our luck holds, commodity dependence always results in exchange rate volatility. This means businesses in other trade-exposed industries, ranging from education to tourism, have fluctuating fortunes, making long-term planning and investment difficult. Individuals find their lives disrupted, having to move to find employment as regional economies rise and fall. Similarly demand for skills fluctuates, which means it becomes risky for people to become too specialised. The Reserve Bank finds that interest rates have to respond to international currency markets rather than to domestic conditions, with obvious consequences for house buyers and builders.

Another consequence, which became evident in 2010, is that commodity firms which have accumulated huge surpluses in the good times can use their financial reserves to exert political leverage. The whole economy can become hostage to a few firms.

Examples of extreme commodity dependence are provided by countries such as Saudi Arabia and Kuwait, where small numbers of people gain meaningful employment in the oil industry, while everyone else maintains material comfort through forms of welfare dependence. These countries struggle to develop the individual and investor incentives that apply in more developed countries. Their currencies rise to the level whereby non-resource industries have no hope of achieving international competitiveness; their economies become hollowed out. They cannot offer a range of employment to match the natural range of human skills. They do not have manufacturing sectors, where many people learn useful trades and skills. Australia has some similar problems, as identified in Treasury Secretary Ken Henry's description of a "three speed economy" – a resource sector in the fast lane, a naturally-protected domestic service sector in the slow lane, and a trade-exposed sector in the breakdown lane.

Just as labour markets become distorted, so too do capital markets. Investors in resource-intense sectors become conditioned to expect high returns. In economic terms, what is known as the opportunity cost of capital rises for the whole economy. Other sectors of the economy find it hard to get funding, because investors expect high returns. The consequence is generally an under-capitalised economy. Both public sector investors seeking funds for infrastructure and private sector investors seeking funds for industrial plant, where returns are more modest, are starved for funds. A consequence of such under-capitalisation is low labour productivity in that large part of the economy which is not directly linked to the resource sector.

The well-respected development economist Jeffrey Sachs, Director of the Earth Institute at Columbia University, points out that being resource rich probably uses up one to two per cent per year of economic growth potential compared with being resource poor.

The 'economically pure' or neoliberal belief, however, is that we should let global economic forces play their part. If that means Australia's economy becomes lopsided, with an overdeveloped resource sector while other sectors remain undeveloped, then just so long as income can be reasonably re-distributed so as to avoid social tension, then we should accept it: any interference in this process is inevitably at the expense of economic growth.

Encapsulated in this belief is the notion that society is subservient to an anonymous, inanimate market, driven by its own rules. Just as we must accept the laws of planetary motion, so too we must abide by the rules of the market.

This notion of market dominance, now entrenched in our way of thinking, is a modern phenomenon. Fearing an emergence of dysfunctional economic dogmas in the post-war period, in 1945 Karl Polanyi pointed out that markets have traditionally been embedded *within* societies, subject to society's norms and rules. In other words, markets should serve social ends. Just as he feared the economic determinism of communism, so too did he anticipate and fear the rise of neoliberal philosophies which would place society as subservient to market forces. (He would have been only partially comforted by triple bottom line thinking, because it still fails to place markets within society.)

Polanyi's thinking has no place in our brave new world, in which we are so conditioned to believe that any departure from pure market-based thinking is poor policy. Admittedly, mainstream economic thinking does acknowledge the limits of markets, with theories of externalities, natural monopolies, public goods and other market failures, but any extension of thinking to suggest that we should try to shape our national economies beyond that determined by the theory of Smith's "invisible hand" is heresy. The greatest insult that can be made of an economist is that he or she advocates 'picking winners'.

We do shape markets, however. We privilege the financial sector immensely, with measures such as compulsory superannuation and subsidies for private health insurance. We have privileged the resource sector with infrastructure and with low charges for extracting resources. We leave sectors of the economy, ranging from newspaper shops and taxis through to health professions, exempt from competition policy. We privilege housing with grants to owners and through maintaining a high level of immigration. By contrast we load labour-intensive industries with the burden of payroll tax. We do shape our economic structure, but not in a purposeful way.

There is a legitimate point that many of our past interventions to shape our economy have been ineffective, have led to unforeseen inefficiencies, and have created privilege for the few at the expense of many. For example, protective tariffs and quotas may have been appropriate instruments a hundred years ago, but by the time the Hawke Government was in office they had become serious impediments to our prosperity. Authorisation of retail price maintenance as a means of assisting retailing, imposed huge costs on consumers.

The fault with these interventions was not their intent, but their design. If we are to intervene in markets, we should do so in ways that do not impede innovation and which do not encourage monopoly profits. That means, where possible, harnessing the power of markets through using market-based instruments: for example, a tax on undesirable activities may be superior to a ban, because a tax sends a price signal, while a ban can spurn a black market. A measure which applies widely is superior to one which favours particular industries or firms; for example supporting general transport infrastructure or basic research is generally preferable to privileging railroads for a particular industry or supporting private research.

We can use our taxes and other public policy interventions to shape our economic destiny to ensure that we have a more resilient structure, so that we are not so buffeted by the commodity cycle.

The foregoing, of course, is based on a model in which we have plentiful resources. In reality, Australia is bumping up against resource constraints.

WHEN LUCK RUNS OUT

Policies for resource limits

Even if we have resource abundance, there is a strong case for shaping our economic structure towards a more balanced set of activities. If, as is now obvious, we have binding resource limits, the case is even stronger.

Through a combination of excess demand (aggravated by irresponsible pricing) and the early effects of global warming, we are facing severe water shortages. As stated by the International Panel on Climate Change “By 2030, water security problems are projected to intensify in southern and eastern Australia.” When we wrecked our soils through grazing sheep we were able to move on to other crops, but when we run out of water we won’t have anywhere else to turn.

More seriously, in terms of greenhouse gas emissions per capita, Australia is up there with the worst contributors, as shown in Table 2. The main culprit is coal, particularly brown coal.

Luxembourg	22.35	New Zealand	8.48
United States	19.10	Austria	8.38
Australia	18.75	Poland	7.99
Canada	17.67	Norway	7.85
Finland	12.19	Spain	7.68
Czech Republic	11.83	Iceland	7.53
Netherlands	11.13	Italy	7.38
Ireland	10.13	Slovak Republic	6.82
Korea	10.09	France	5.81
Belgium	9.97	Switzerland	5.62
Germany	9.71	Hungary	5.36
Japan	9.68	Portugal	5.20
Denmark	9.24	Sweden	5.05
Greece	8.74	Mexico	4.14
United Kingdom	8.60	Turkey	3.59

Source: OECD in Figures 2009.

Greenhouse gas intensity is not an inevitable by-product of industrialisation, or of private transport. For example, Germany, which is much more industrialised than Australia and with similar high car ownership, has half our CO2 intensity per head and per unit of GDP.

If (or more rightly when) our energy resources are priced at a level which reflects their true cost – a cost which accounts for their environmental damage – we will realise their scarcity and be forced to adapt. That price may arise from a carbon tax or from a cap and trade scheme. Economists will say that it is sound economics, environmentalists will say that it is sound environmentalism; both are concerned with better allocation of scarce resources, and both agree that dirty energy producers should not be subsidised by exempting them from paying for their environmental externalities.

The notion that investments required to make the adaptation will hurt our economic growth does not stand up. If there has to be heavy investment in modernising our energy-intensive industries, then there may be a short-term diversion from consumption to investment, but it is better to make that small sacrifice early. For example, the longer we live with the illusion of cheap transport and domestic fuels, the more large houses we will build on

our urban fringes. It is a cruel hoax on house owners to shield them from the unsustainability of our settlement patterns.

Modelling commissioned by the Australian Conservation Foundation and the Australian Council of Trade Unions, undertaken by the National Institute of Economic and Industry Research, shows that strong action to cut greenhouse gas pollution by 25 per cent will make households better off by 2030 than if we were to continue with 'business as usual', and, in the meantime, will have positive employment consequences. Farsighted industry leaders, such as Origin Energy Managing Director Grant King, has called for carbon pricing to remove the present relative price penalty applying to clean power.

If Australia acts now we have an opportunity for an early start in new energy technologies, for which there will be world-wide demand. Australia's expertise in mineral exploration and drilling, for example, should provide a head start in geothermal power development, but that opportunity will not be realised while clean energy has to subsidise dirty energy. We once had a world lead in solar technology, but we lost that when we failed to see its value.

One point, though, is that investment in new technologies and in new plants requires patient capital. The assets involved are long-lived but do not show spectacular early returns. Geothermal and wind power will require new transmission lines. Metropolitan subway systems require extensive tunnelling. Stormwater catchment requires re-design of our urban infrastructure. In contrast, incremental expansion of an existing coal fired power station, already privileged by having access to long-established transmission lines, shows earlier returns.

In that respect, we need to keep the cost of capital down, and to reform our investment taxes which, at present, reward short term speculation at the expense of long term investments. It is important, too that we come to accept more modest expectations about long term profits. As pointed out by Elroy Dimson and his colleagues at Princeton University, compared with other countries Australia enjoyed abnormally high investment returns over the 20th Century, thanks largely to commodity dependence. The hysterical reaction to the resource super profits tax confirms that Australian businesspeople, conditioned by a run of high profits, are living in a fantasy world of high and enduring investment returns.

PUBLIC POLICIES TOWARDS SUSTAINABILITY

We need policies to re-structure our economy. Specific policies should be developed carefully, backed up by research and proper benefit-cost studies. In a document of this nature it would be premature to suggest, say, that we should have carbon quota of X tonnes (a carbon tax may be far better), or a specific depreciation allowance for renewable energy (it may be better to have different types of capital incentives).

It is possible, however, to articulate some general policy principles.

First, we should recognise the interaction of all policies. Compartmentalisation of policies leads to poor thinking and poor decisions, generally resulting in the elevation of a rarefied and abstract notion of ‘the economy’. We need to restore a ‘public service’, so that government employees do not confine their concerns to particular portfolios, and agencies do not see themselves in combative relationships.

Second, we should recognise that the purpose of economic policy is to serve society. This idea is hardly radical; it is to be found in mainstream economics texts. It does not emerge in public policy debates, however.

That may mean we sacrifice some headline growth (e.g. measured GDP) to ensure we live in a more harmonious society. It does not mean some utopian levelling, but it does mean that we restore equality of opportunity, for example through access to education and health care, and ensure that our economic incentives align with people’s contributions. As Wilkinson and Pickett point out, unfairness, and perceptions of unfairness, sap societies of their strength and resilience.

Third, we need stop thinking of tradeoffs between ‘environmental’ and ‘economic’ policies. Environmental assessment should not sit alongside economic assessment: all consideration of allocation of scarce resources should be integrated. The externalities associated with consumption of environmental assets should be brought fully to account.

Fourth, we need policies which re-shape our economy to restore balance between resource extractive industries and other industries. That will generally be through harnessing the power of markets through prices, rather

than through direct interventions (not the regulatory approach favoured by the present Coalition Opposition). Practical policy outcomes will include:

- The full pricing of carbon and other greenhouse sources, full pricing of water and of other scarce resources;
- The reform of taxation to remove penalties applying to long term patient investment, to remove the incentives for speculative investment in housing, and to encourage investment in human capital. The Henry Review has drawn attention to many distortions in our present arrangements, but much work is needed on means to achieve reform
- The reform of the financial sector to shift investment funds from financial speculation to wealth creation. Reforms should aim to ensure the financial sector is the servant, not the master, of the real economy
- Adjustment assistance, where necessary, to firms and individuals, bearing in mind that if the government can hold a steady course on economic reform, there should be few surprises needing compensation. A carbon tax or auctioned permits will raise revenue to provide adjustment assistance, but there is no reason why all such revenue should be directed to adjustment assistance or compensation to households. For the most part firms and individuals should have time to adjust without needing assistance; and,
- The provision of necessary public goods to allow re-shaping of the economy. Depletion of natural capital should be balanced by investment in public capital, including physical infrastructure in transport, water, and energy transmission, investment in research and human capital, and investment in public education. Such investment should be guided by rigorous and transparent benefit-cost analysis. Investment in education is necessary not only to provide the skills for an internationally competitive economy, but also to forestall opposition to change.

To clear the way for such policies, however, we need to dispel the myth that we are a developed country; living off natural assets has led us into complacency. We need to become a real developed country, earning our keep through our (renewable) human capital and entrepreneurship.

Such re-shaping involves a fundamental transformation of our economy, no less dramatic than the transformation that took place during the Hawke-Keating years. We have demonstrated that we can undertake economic transformation, and, although it will involve difficulty, the alternative path of stagnation, with a small extractive sector and a large low productivity sector, subject to the swings of world commodity prices, is not attractive to contemplate.

MORE THAN LUCK

“In the era of electronic transfers, there is no reason why donations should not be reported to the AEC at the same time as they are transferred to the bank.”

Strengthening democracy

By Marian Sawyer, Kathy MacDermott
& Norm Kelly

“Everybody to count for one and nobody for more than one.”

– JEREMY BENTHAM

THE PRINCIPLE of political equality has always been central to democracy and to the way democracy was understood by the democratic reformers of mid-19th Century Australia. The Australasian colonies were regarded as being in the vanguard of democratic innovation and at the end of the 19th Century such innovations became part of the federal compact. The new Constitution expressly precluded plural voting (provisions for property owners to have extra votes), and the Senate was to be directly elected on a popular franchise, unlike any other upper house of the time. There were to be no privileges based on property, and in the words of the first commentator on the Australian Constitution, University of Melbourne Dean of Law Harrison Moore: ‘The predominant feature of the Australian Constitution is the prevalence of the democratic principle, in its most modern guise’. He believed that this underlying principle meant that rights were protected not through a Bill of Rights, but through ensuring as far as possible that individuals had an equal share in political power.

During the 20th Century, progress in this area continued. For example, property qualifications for State upper houses were finally abolished. Later, the malapportionment which made the votes of rural property holders worth more than the votes of urban residents was gradually removed, except for in the Western Australian Legislative Council. However, the last quarter of the 20th Century saw the influence of property again assume a major role in electoral politics. The dependence of political parties on corporate donations has served to undermine fair electoral competition and hence the principle of political equality.

Australia started introducing public funding for political parties in the 1980s in order to reduce dependence on corporate money and to ensure parties had the means to communicate with the electorate. As in other countries, the amount of public funding was tied to the level of public support for the party, measured by the number of votes gained above a certain threshold, with all votes being of equal value. However, Australian governments ‘forgot’ to tie receipt of public funding to abstention from private donations. Unlike public funding, corporate donations were not tied to a fairness formula, so that parties received very different levels of funding per vote. For example, at the 2001 federal election the amount of private money received by political parties with parliamentary representation varied between \$29 and \$6 per vote, while public money was set at a standard \$1.80 per vote.

Instead of becoming less dependent on private money, the major parties became ever more dependent on it, especially with the escalating costs of television campaigning. At the same time, the remaining statutory caps on campaign expenditure were removed, except for the Tasmanian Legislative Council, giving an advantage to those with the wealthiest friends and backers. The degree of fairness that public funding was intended to introduce into democratic elections had been swiftly undone.

What's wrong with corporate donations?

- Corporate donations (including union donations) are incompatible with the principle of political equality, quite apart from their association with corruption.
- Corporate entities gain greater access to decision-makers and greater power over the democratic process than do citizens, challenging the idea that only people, not property should have voting rights
- Private money skews the level playing field for electoral competition. Corporate donations are not made in accordance with a fairness formula, unlike public funding
- Lack of timely donation disclosure makes it more difficult for voters to make an informed choice at election time

POLITICAL FINANCE REFORM IN INTERNATIONAL PERSPECTIVE

Australia is not the only democracy confronting the dilemmas posed by the role of money in electoral politics. The combination of the escalating cost of campaigns, shrinking party membership and deepening public mistrust about politicians and money contributes to loss of confidence in democratic institutions. The 2007 Australian Election Study showed that 69 per cent of voters believe that big businesses – the kind of organisations which make the most substantial donations to political parties – have too much power.

Two effects of the arms race in campaign expenditure

- Dependence on corporate donations arouses suspicion amongst the public that policy will favour the “big end of town” that provides large donations
- Corporate donations help pay for the negative advertising that creates generalised distrust in politics and politicians

But while other democracies, including Canada, New Zealand and the United Kingdom (UK) have taken serious steps in recent years to tighten up their political finance regulation, Australian governments have been slow to grasp the nettle. Indeed, under the Howard Government things went backwards at the federal level, with the weakening of disclosure requirements, raising the threshold for disclosure to \$10,000 (or \$90,000 if a donor gives to the State, Territory and Federal divisions of a party). The Rudd Government twice brought forward Bills to bring the disclosure threshold back down to \$1,000, but they were defeated in the Senate.

There are remarkably few restrictions in Australia on the size or source of donations to political parties. Australia even allows donations by foreign interests or those with an interest in government contracts or planning decisions. One exception, arising from continuing and well-publicised scandals, is the legislation passed in New South Wales in December 2009 prohibiting donations from property developers. While the singling out of one class of donations is understandable, it is unlikely to be effective in the long term in allaying integrity concerns or achieving a level playing field.

Australia's laissez-faire attitude to money politics

- Few restrictions on the size or source of political donations
- No restriction on donations by overseas interests
- No caps on campaign expenditure except in Tasmania
- No limits on purchase of political advertising in the electronic media
- No limits on third party advertising

By contrast, in Canada both Liberal and Conservative governments have taken major steps to remove the influence of corporate money from the electoral process and to ensure a level playing field in elections. Instead of campaigns being mainly funded by large corporations, they are now predominantly funded (at a lower level) out of the public purse.

Canadian model of political finance regulation

- Ban on corporate or union donations to parties or candidates
- Individual donations limited to \$1,000 adjusted for inflation
- Cap on expenditure of parties/candidates; disclosure requirements

Strengthening democracy

- Cap on third-party expenditure; disclosure requirements
- Public funding: – (partial) reimbursement of campaign expenditure
 - allowance paid quarterly for parties gaining over two per cent of the national vote
 - free broadcast time plus allocation of paid time determined by Broadcasting Arbitrator

But what of the so-called hydraulic nature of political finance – the idea that if money can't go directly to political parties it will flow through other channels, such as third parties? In Canada, third parties have to register with Elections Canada once they have spent more than \$500 on election advertising. They then have to disclose their expenditure and donors and comply with an upper limit on third party expenditure (\$150,000).

The Canadian model of political finance regulation, in the fully-developed form shown above, has been in place for the last three general elections. It requires close oversight by a highly-respected and independent electoral management body (Elections Canada) and provides a useful model for Australia to build on.

In Australia, it is sometimes suggested that political finance reform would be constitutionally impossible. The argument is based on Australia's short-lived (1991–92) ban on paid political advertising in the electronic media, which was found by the High Court to infringe the implied Constitutional right of political communication. Similarly in Canada, Constitutional challenges were made on the grounds that restrictions on third-party advertising infringed the freedom of expression guaranteed by the *Canadian Charter of Rights and Freedoms*. However, the most recent restrictions (rather than bans) have survived such a challenge, with the Supreme Court finding in 2004 that the restrictions were reasonable in the interests of electoral fairness. It concluded that the restrictions were necessary to provide a level playing field for political discourse. The restriction of some voices was necessary so that others might be heard.

Freedom of speech does not mean allowing some voices to drown out others

This should also be the argument put forward in Australia. There should be limits on the size of political donations and on campaign expenditure, whether by parties or third parties. Through ensuring that these limits are reasonable and appropriate to achieving electoral fairness, they should not fall foul of the “implied right of political communication” identified by the High Court in the 1992 *Australian Capital Television Case*. Such reasonable restrictions already exist in Australian electoral law, including the three-day blackout of electronic political advertising in the final few days of a campaign.

TIMELINESS

The only real restriction on political donations in Australia has been the requirement for disclosure. However, the usefulness of disclosure has been significantly reduced by its lack of timeliness. For example, it took 16 months after the 2004 federal election before voters found out that Lord Ashcroft, a foreign citizen (of Belize and the UK) had given \$1 million to the Liberal Party before the 2004 election. If he had given this amount to the British Conservative Party during an election campaign it would have been disclosed within a week.

Some steps have been taken in Australia to improve timeliness. For example, New South Wales and Queensland now require disclosure every six months. However in the era of electronic transfers, there is no reason why donations should not be reported to the Australian Electoral Commission (AEC) at the same time as they are transferred to the bank, and then published on the AEC website.

CHALLENGE #1: Cleaning up political finance

- No corporate or union donations
- Donations only by individual citizens or permanent residents, and a capped amount
- Caps on party and third-party expenditure
- Immediate disclosure of donations

GOVERNMENT ADVERTISING

One way in which political parties supplement the donations received from private sources is by using government resources for party purposes. Clearly this is most open to incumbent governments, and the most flagrant example is the use of government advertising for political rather than public benefit. Expenditure on government advertising reached a peak in the later years of the Howard Government when the federal government became Australia's biggest advertiser, ahead of corporations such as McDonalds or Coca-Cola.

Then Labor leader Kevin Rudd declared the misuse of government advertising to be a "cancer on democracy" and the 2007 Labor Platform made a number of important commitments to remove this "cancer".

2007 Promises

Labor will not support the use of government advertising for political purposes. Labor will introduce legislation to ensure:

- Government advertising campaigns only occur after government policy has been legislated for by parliament
- All government advertising and information campaigns provide objective, factual and explanatory information, free from partisan promotion of government policy
- All advertising campaigns in excess of \$250,000 are examined by the Public Service Commissioner, who will report to ministers on whether the proposed advertising complies with Auditor-General's 1998 guidelines on government advertising, and,
- The cost of government advertising is minimised by the targeted use of media other than television advertising

– ALP NATIONAL PLATFORM 2007, S. 54

In 2008 the Rudd Government fulfilled its promise to put in place guidelines to ensure taxpayer-funded advertisements were not used by the Federal Government for party political purposes. The guidelines set out procedures for ensuring that advertising campaigns of a certain value complied with five principles – relating to when campaigns could be conducted, how campaign materials should be presented and the legal and procurement responsibilities to be considered. In 2010, those guidelines were amended following a review

conducted by former senior public servant Dr Allan Hawke. The main issue arising from the amendments is whether the revised guidelines will make it easier for the government to spend taxpayers' money on campaigns that serve its political interests rather than the public interest.

2010 Information and Advertising Campaign Principles (Key Headings)

Principle 1: Campaigns should be relevant to government responsibilities.

Principle 2: Campaign materials should be presented in an objective, fair and accessible manner and be designed to meet the objectives of the campaign.

Principle 3: Campaign materials should be objective and not directed at promoting party political interests.

Principle 4: Campaigns should be justified and undertaken in an efficient, effective and relevant manner.

Principle 5: Campaigns must comply with legal requirements and procurement policies and procedures.

The 2008 Guidelines were not legislated (indeed, the commitment to legislation was dropped from the ALP's 2009 National Platform) and were not always clear with respect to some procedural matters. But they did have a practical impact. For example, expenditure on public advertising fell. Transcripts of government advertisements can now be found on agency websites, as can certification from both the Auditor-General and agency chief executives that campaign material complies with the guidelines and is not party political in content. The factual content of campaign advertisements has arguably increased, although there is little evidence that the 'good news' overtones are being muted.

It is important to understand what has been achieved through the Government's 2008 Guidelines in order to understand the extent to which this achievement has been put at risk by the 2010 revisions. The revised approach incorporates two key changes: the transfer of the responsibility for reviewing proposed campaigns from the Auditor-General to a new Independent Communications Committee appointed by government and composed of eminent former public servants, and the widening of the scope for exemption from the Guidelines.

The transfer of the responsibility for reviewing proposed campaigns from the Auditor-General to a new Independent Communications Committee has occurred because of concerns that the Auditor-General was taking, 'an overly

risk-averse, conservative approach to Government communications activities'. The Guidelines require the Auditor-General to pronounce on the compliance of a campaign with the Guidelines before that campaign is undertaken, while the ongoing functions of the Auditor's Office entail undertaking performance audits of the same campaign after it has been completed. As the ACT Auditor-General noted when asked her views on the same model: 'That created a risk for us, because later on, if we come back and do a performance audit and find a number of government advertisements are totally a waste of money because they did not achieve the intended outcome to change people's behaviour or to inform people, it looks as if we are in conflict with ourselves because we approved them in the first place'. The possibility of such a perceived conflict, it has been argued, would tend to make the Auditor-General's decisions unnecessarily conservative. Hence the expectation that the transfer of the review function to an Independent Committee is likely to result in a more relaxed application of the Guidelines.

Moreover, the scope for excluding particular advertising campaigns from compliance with the Guidelines has been widened. Under the old 2008 Guidelines, the Cabinet Secretary could exempt an advertising campaign from compliance on the basis of a national emergency, extreme urgency or other extraordinary reason. In the revised Guidelines "extraordinary" has been revised to "compelling" on the ground that this revision provides more flexibility. There is clearly a question as to whether such additional flexibility is desirable or necessary.

These are the changes that have been criticised as watering down the implementation of the government's 2007 election commitment and widening the scope for political interference in government advertising campaigns. Such concerns have been exacerbated as the government moved quickly to give itself an exemption from its own Guidelines in order to fast-track a defensive campaign on its proposed mining tax. That campaign was withdrawn following a deal with the mining industry, which ceased its own campaign at virtually the same time. It is to be hoped this exemption did not represent the first of a series that will progressively undermine Labor's 2007 election commitment to clean up government advertising.

Until they become law, the Guidelines will remain vulnerable to reinterpretation or revision. In the Australian Capital Territory the Liberal Opposition, with support from the Greens, has passed legislation to regulate government advertising. The *Government Agencies (Campaign Advertising) Act*

was passed in December 2009 and came into force July 1st 2010. Among other things, the Act requires campaigns costing over \$40,000 to go to an independent Campaign Advertising Reviewer for a compliance review. The appointment of the Reviewer must be supported by at least two thirds of the members of the Legislative Assembly. Ministers may exempt urgent matters from the Act, but the exemption will be disallowable by the Assembly.

The incoming federal government should follow the example of the Australian Capital Territory and legislate to ensure government advertising is not used for party purposes. Any exemption from the procedures and principles applying under the legislation because of a national emergency, extreme urgency or other compelling reason should not exempt the campaign from the application of Principle 3 (Campaign materials should be objective and not directed at promoting party political interests). Where an information or advertising campaign has been exempted from the usual compliance oversight, agency chief executives should be required to certify that the campaign is nevertheless compliant with Principle 3.

The legislation should, at minimum, incorporate a requirement to report annually on the value of each campaign as defined in the 2010 Guidelines.

CHALLENGE #2: Cleaning up government advertising

- Legislate to ensure that Commonwealth information and advertising campaigns comply with the five principles as set out in the 2010 Guidelines.
- Legislate to ensure that Government campaigns can be approved for launching by a Minister only when the chief executive of the agency undertaking the campaign certifies that the campaign complies with the five principles and, in the case of larger campaigns, after the Auditor-General reports to the Minister responsible for undertaking the campaign on the proposed campaign's compliance with the principles.
- No campaign should be exempt from the application of Principle 3. Where, exceptionally, a campaign has been otherwise exempted from the procedures and principles set out in the legislation, agency chief executives should be required to certify its compliance with Principle 3.
- The legislation should, at minimum, incorporate a requirement to report annually on the value of each campaign as defined in the 2010 Guidelines.

THE ELECTORAL ROLL

While getting private money out of electoral politics and preventing the misuse of public money is part of the recipe for restoring the principle of political equality, another equally important ingredient is ensuring that eligible citizens are able to participate.

Although enrolment is compulsory for eligible Australians, the Australian National Audit Office estimates that 1.1 to 1.4 million otherwise eligible voters are missing from the electoral roll. This is because they have never enrolled, or because they have moved location and have not enrolled at their new address. Apart from the portion of the population who will intentionally avoid being enrolled, there are two significant reasons for this high level of non-enrolment: complicated procedures to enrol, and a lack of sufficient time to enrol after an election is called.

“While the AEC is mandated to remove from the roll those who are not eligible... automatic deletion is not mirrored by automatic enrolment. Put bluntly, ‘the AEC is getting much better at taking people off the roll, but not at putting them on.’”

– BRENT, COSTAR AND KELLY,
DEMOCRATIC AUDIT OF AUSTRALIA SUBMISSION.

In 2006 the Howard Government introduced more stringent ‘proof of identity’ requirements for people wishing to enrol or to change their enrolment. The new ID rules make it more difficult for the AEC to enrol people, even when the Commission is aware of an enrolled person’s new address. Under current Commonwealth rules, the AEC can send an enrolment form to a person’s new address, but the person has to fill out, sign and return the form to the AEC before becoming enrolled. Often a voter will see that the AEC has their new address, and assume that they are enrolled. In addition, the 2006 changes shortened the opportunity to enrol once an election was called – previously seven days – to the day election writs are issued. Federal elections are not held on a fixed date (as occurs in some States, including New South Wales and Victoria), so this leaves potential voters little time to enrol or update their enrolment.

Best practice in modern international electoral administration provides for ‘smart’ enrolment, also known as ‘direct’ or ‘automatic’ enrolment. Under an automatic enrolment regime, a commission initiates or updates a person’s enrolment when it is notified by government agencies that a person has

reached enrolment age or has changed address. The person is then informed that they are enrolled and asked whether they have any objections. This shift of emphasis is important, as it requires the person to take action to un-enrol, rather than to enrol. Automatic enrolments address, in particular, the relatively low enrolment of young people who tend to be highly mobile and either drop off the roll, or never get on it. Other demographic groups, such as transient workers and renters, also benefit. In these days of electronic rolls, automatic enrolment also largely removes any need to ‘close’ the rolls before an election. There is no reason why new enrolments and enrolment updates cannot continue up to election day, as occurs in countries including Canada and New Zealand.

“The debate about when rolls should close is ‘like arguing over Beta and VHS when the answer is DVD.’”

– PETER BRENT

Of course, best practice in achieving a more comprehensive roll can also have partisan affects. Young and itinerant people are considered less likely to vote for conservative parties and more likely to vote for Labor or the Greens. However, the democratic principles of fairness and inclusiveness should override any partisan considerations. While the Coalition may argue that citizens have a duty to comply with the current registration requirements, there is an onus on government to facilitate ease of access to participation, especially under a compulsory enrolment and voting regime.

On the question of reforms to ensure a more comprehensive electoral roll, the argument should not be about assumed partisan advantage. All eligible voters should be on the roll. The onus should be on government to facilitate this.

In 2009, the New South Wales Labor Government passed legislation for automatic enrolment, and is set to implement it ahead of the March 2011 State election. In order to avoid confusion, New South Wales is waiting until after the Federal election to implement the new arrangements. In June 2010, the Victorian Labor Government introduced legislation into Parliament for automatic enrolment. With a general election due to be held in Victoria on November 27th 2010, it is unclear whether the Brumby Government will seek to pass the legislation prior to then. As the States and Territories operate ‘joint-roll’ arrangements with the AEC, there is huge potential for confusion if voters become automatically enrolled at the State level, but remain unenrolled for Federal elections. The different systems will create confusion for voters unless

the Commonwealth also adopts automatic enrolment. Given that the two largest States (which contain 58 per cent of all Australian voters) are moving to modern enrolment systems, it is imperative that the Commonwealth and other States and Territories also adopt a process that is seamless for voters.

Since coming to power in 2007, the Labor Government has introduced legislation to reform the current enrolment requirements. The proposed changes include restoring the seven-day enrolment period after an election is called, removing some of the ID requirements introduced by the Howard Government, and to allow voters to update their enrolment electronically (as you would, for instance, for your bank accounts). Previous reform attempts have been stymied by the Senate, so it may not be until the new Senators take their seats from July 2011 that the current Bills can be passed. Under the agreements between the newly-elected Gillard Government and the Greens and Independents a national inquiry into broader electoral reform will also report by October 1st 2011, enabling further legislation in 2012.

CHALLENGE #3: Simplifying electoral enrolment

- Introduce automatic enrolment
- Standardise enrolment procedures between Federal, State and Territory jurisdictions
- Allow new enrolments and enrolment updates up to the day of the election

It is time for reforms that place political equality ahead of perceived partisan interests. Political equality and democratic integrity cannot be taken for granted. These values require sound legislation and strong oversight bodies that remove temptation from the government of the day. We have attempted to show the urgent need for this in the areas of political finance, government advertising and electoral enrolment.

“Better governance
requires a more
skilled use of
systems thinking.”

Governance that works

By Ray Ison

FUTURE PUBLIC SECTOR reform needs to differentiate between reform that does the wrong thing in the right way and reform that does the right thing. To consider what the right thing is, we need to look at the big picture and ask: does Australia have the forms of governance it needs to be effectively governed? This chapter takes a step back and presents a systemic perspective on:

- How some situations that need to be governed are, or could be, framed,
- The systemic failings that are built into our current governance arrangements,
- Some of the findings and recommendations of the recent Moran Review, and
- Recommendations for improving public sector reform.

RE-FRAMING GOVERNANCE IN A CLIMATE-CHANGE WORLD

What is governance?

Governance encompasses the totality of mechanisms and instruments available for influencing social change in certain directions. While governance is a much broader idea than management or administration, it is not some abstract label but an action that has to be carried out. Governance is the context in which adaptive planning, designing, regulating and then managing sits. Governance that is 'adaptive' incorporates learning and change in response to uncertainty.

Governance and systems thinking

There are many good introductions to systems thinking and how it can be used. Unfortunately too few people know what it is and how to use it. Most rarely make it to first base because they are trapped in a dominant linear, causal mode of thinking typified by projects, prescriptions, objectives, deliverables and blueprints. Better governance requires a more skilled use of systems thinking.

Reframing the situations to be governed

At this moment in Australia, the public service (APS) faces a growing number of seemingly intractable policy problems, and the pressing need is to work out how to make governance work in conditions of uncertainty.

In 2007, the APS Commission (APSC) produced a very thoughtful review of 'wicked problems'. This review described 'wicked problems' as problems that:

“Go beyond the capacity of any one organisation to understand and respond to, and [where] there is often disagreement about the causes of the problems and the best way to tackle them...key ingredients in solving or at least managing complex policy problems include successfully working across both internal and external organisational boundaries and engaging citizens and stakeholders in policy making and implementation.”

Rittel and Webber coined the term ‘wicked problems’ in the 1960s, and contrasted them with ‘tame problems’ where the main stakeholders agree on the nature of the problem and what would constitute a solution. With tame problems, they found that traditional problem solving approaches could be reliably used. In their experience, however, ‘tame problems’ were rarely present and traditional approaches often made wicked problems worse.

Walking becomes painful if the shoes no longer fit, or are wearing out. This is a good description of the failure to deliver systemic and adaptive governance in a world in which an increasing proportion of the problems that governments face are ‘wicked’. Making these ideas real in terms of public sector reform is a great challenge. Unfortunately there are very few examples of using systems thinking and practice (ST&P) to guide public sector reform.

MYTHBUSTER: Science and evidence can transform uncertainty into certainty

Rittel and Webber argue that it is morally objectionable for a ‘planner to treat a wicked problem as though it were a tame one, or to tame a wicked problem prematurely, or to refuse to recognise the inherent wickedness of social problems’.

Whenever policymakers seek ‘objective’ evidence or answers from science to deal with a ‘wicked problem’ they are, perhaps unknowingly, attempting to tame the problem. Evidence from science and research, historical data and trends are needed but are insufficient.

We need to accept the uncertainty of many situations and develop practices for governing uncertainty. A simple reframing from the governance of certainty to uncertainty changes fundamentally the underlying predispositions and emotions of those involved and thus also the practices.

Whether situations are framed as ‘wicked problems’ or not is a choice we can make. In the Moran Review, for example, the word ‘wicked’ does not appear. Instead there are framing phrases like: “policy challenges in the era of globalisation are so complex, and the solutions so contested...” or “policy issues are increasingly complex and interrelated...” ‘Complex’ is one of the new framings of choice, but while the language may change, the situations to which the language refers have not gone away. They are, if anything, multiplying and it will take a shift in thinking, the practices that result from that thinking, and in our governance structures to engage with them effectively.

CHALLENGE #1: Reframe public sector reform in terms of reinventing governance

Public sector reform which does the wrong thing in the right way is no longer good enough. The new Gillard minority Government needs to develop systemic and adaptive governance experiments as part of its expansion of horizontal governance (see what is meant by horizontal governance below). This shift could make a big difference as part of on-going water reform, in moving towards sustainable cities, and in the reframing of climate change responses as moving towards a post-carbon society.

The recent report *Adapting Institutions to Climate Change* produced in the UK by The Royal Commission on Industrial Pollution provides some useful ways to think about reform. The Commission identified four overlapping challenges that need to be faced when adapting to climate change: uncertainty, complexity, path dependency and equity and efficiency. Confronting these challenges, they argued, requires attention to how issues are framed, how learning is incorporated and how development and implementation of policy deals with the four challenges.

The Royal Commission’s insights apply beyond the governance of climate change. Parts of the new Murray Darling Basin Authority (MDBA) have demonstrated how systemic and adaptive approaches could begin to be introduced into the MDBA’s operations. However, the structures of the MDBA and the *Water Act (2007)* make it difficult for the organisation to move in this direction.

ALTERNATIVE STRUCTURES OF GOVERNANCE

The term New Public Management (NPM) has been applied to an approach to public service reform that focuses on performance management, the devolution of managerial controls to individual agencies, the restructuring

of public sector industrial relations arrangements and outsourcing of service delivery to third-party service providers. Kathy MacDermott has looked at the history of New Public Management in Australia and found that the approach has been internalised by the APS in ways that leave it much more vulnerable to the pressure towards politicisation. The Moran Review needs to be considered in this light.

Ian McAuley in *Grey Suits and Vague Language* notes that the Moran Review report uses the words 'strategy' and 'strategic' 136 times in its 81 pages "but not once are they defined... What is meant by the term 'strategic policy'? Is it long term and system wide? Is it just clever?"

The report states that "...strategy requires having a vision over a horizon of a decade or more, not a single planning cycle. For the public service, strategic thinking means thinking how the public service will do its job beyond the next electoral cycle." But if strategy is just long term planning, then there is nothing to suggest that the Moran Review will achieve anything other than doing more of the wrong thing in the right way. What is missing is an understanding that good strategy depends on how situations are framed (e.g. the 'wickedness' of problems) and how the 'system' of governance is structured.

McAuley also draws attention to the report's use of the term 'leadership':

"...another word used freely — 63 times — ... again without explicit definition. For example, senior public servants are expected to 'model leadership behaviours including promoting innovation and challenging unnecessary risk aversion ...' This all sounds fine...but note the tautology: leaders model leadership. The implicit leadership model, illustrated in the report with a neatly drawn pyramid, assumes that authority and leadership are closely intermeshed or perhaps even indistinguishable."

- IAN MCAULEY,
GREY SUITS AND VAGUE LANGUAGE

Leadership is better understood as an emergent property of the interactions of individuals and context rather than as the position description or personality trait of an individual. Our current governance arrangements are for the most part designed to maintain hierarchical, command and control decision making. There are other options better suited to our circumstances.

MYTHBUSTER: There are no alternatives to hierarchy

Gerard Fairtlough claims that there are only three ways of getting things done in organisational life. He refers to hierarchy as the most common and recognises the hegemony of hierarchy in our organisational practices. Hierarchical or command and control approaches are very poor at managing variety and surprise and the uncertainty of 'wicked problems'.

Fairtlough's second category, heterarchy, refers to multiple rulers with a balance of powers rather than a single ruler through hierarchy (an example of heterarchy is a group of partners in a law firm). In the recent UK election both New Labour and the Conservatives had policies concerned with more heterarchical modes of governance, such as fostering mutuals or cooperatives.

Fairtlough's third category is 'responsible autonomy' in which an individual or group has autonomy to decide what to do but is accountable for the outcome of the decisions. Australia has a history of innovation in governance arrangements associated with 'responsible autonomy' though, unfortunately, they rarely seem to have been understood as such in policy circles. Landcare was in its original form a good example of world-class innovation in governance that exemplified responsible autonomy. Unfortunately as so often seems to be the case, these bottom-up initiatives, such as Landcare, become appropriated by the state into the dominant hierarchical framework. When this happens, the creativity, innovation and emergence associated with 'responsible autonomy' is lost.

To me, responsible autonomy is the form of governance that most closely aligns with the skill set that is desirable in the 21st Century public sector. If the aim is to create the space for new solutions to emerge then there are clear advantages to purposefully creating the conditions for devolved self organisation – a key attribute of systemic and adaptive governance.

Unfortunately the essential measure of public sector performance under New Public Management and the Moran review, is that of efficiency. In systemic terms, this is only one of several measures of performance. One could add efficacy – does it work? Effectiveness – does it achieve its purpose? Equity – how are the benefits distributed? Ethicality – is it ethically defensible? Efficiency gains may come at a cost to other measures of performance.

CHALLENGE #2: Serious engagement with new forms of horizontal governance

Horizontal Governance encompasses a range of governance mechanisms other than vertical command and control or hierarchical approaches. The literature on the subject often stresses networks, usually of community-based organisations, but this does not have to be the case. The Victorian Centre for Excellence in Child and Family Welfare is a peak body that acts as an intermediary with government on behalf of a network of over 90 voluntary sector organisations. The heterarchical mutuals and cooperatives, and other forms of organisation based on responsible autonomy can all contribute to more horizontal forms of governance as could imaginative change within the APS itself. In the UK moves towards creating greater 'public value' through public sector reform can also be understood in these terms.

Susan Phillips highlights practices that recognise interdependencies, and seeks coordination, negotiation and persuasion instead of control. To this might be added deliberation, enablement and social learning. Horizontal governance is significantly different from simplistic consultation, naive stakeholder participation, the provision of information or education, unethical approaches to behaviour change or a simplistic belief in market mechanisms.

In her review of Canadian experiences with innovations in horizontal governance Susan Phillips saw that governments found it very difficult to give up control. For this reason Phillips concluded that 'it would be myth to assume that horizontal governance is being practiced as conceived'. This highlights the need for institutional and practice innovation and long-term political support. Canada's experimentation with networked, horizontal governance came to an end when the current government, committed to hierarchical command and control approaches, came to power.

Serious experimentation with horizontal governance needs to be immune from short-term election cycles, as it requires adequate protection from arbitrary shifts in political and intellectual fashion.

INVESTING IN SYSTEMS THINKING AND PRACTICE

I have argued for embedding systemic thinking and practice in the APS as a core capability within a broader systemic and adaptive governance regime.

I am not the only one. In July 2009, Lynelle Briggs argued for the development of more horizontal accountability mechanisms (a form of horizontal governance) and the need for skills and capabilities for APS staff in:

- (i) Problem framing and boundary setting
- (ii) Generating fresh thinking on intractable problems
- (iii) Working across organisational and disciplinary boundaries
- (iv) Making effective decisions in situations with high levels of uncertainty
- (v) Tolerating rapid change in the way problems are defined, and
- (vi) Engaging stakeholders as joint decision-makers (not just providers or recipients of services).

Other research has highlighted the need for systemic capability for effective leadership and sustainability management. In *Exceeding Expectation: the principles of outstanding leadership* research undertaken by The Work Foundation (UK) shows that outstanding leaders 'think systemically and act long term... Outstanding leaders achieve through a combination of systemic thinking and acting for the long term benefit of their organisation. They recognise the interconnected nature of the organisation...'

Geoff Mulgan, writing in 2001, identified seven factors that increased the relevance of systems thinking to policy making and to the functions of government. These were:

1. The ubiquity of information flows, especially within government itself
2. Pressure on social policy to be more holistic
3. The growing importance of the environment, especially climate change

4. The connectedness of systems and the new vulnerabilities this brings
5. Globalisation and the resultant integration of previously discrete systems
6. The need to be able to cope with ambiguity and non-linearity
7. The understanding that planning and rational strategy often lead to unintended consequences.

He concluded that out of all these factors has come a “common understanding that we live in a world of complexity, of non-linear phenomena, chaotic processes, a world not easily captured by common sense, a world in which positive feedback can play a hugely important role as well as the more familiar negative feedback that we learn in the first term of economics.” He also recognised that “so far remarkably little use has been made of systems thinking or of the more recent work on complexity” and that in part this is “to do with the huge sunk investment in other disciplines, particularly economics.”

The trends and imperatives recognised by Mulgan have, if anything, become more pronounced since 2001. However, so far little has been done in Australia to respond to them and it is not clear that key decision-makers would know how to do so. There is a tendency within government to limit the definition of need to skill development, but research demonstrates that to do this is to miss the point entirely; skills are necessary but not sufficient unless developed within a theory-informed organisational ‘ecology’ that is systemic and adaptive.

CHALLENGE #3: Invest in systems thinking and practice at the same time as managing governance reform systemically

EVIDENCE OF SYSTEMIC GOVERNANCE FAILURES

A major study by Stein Ringen looked at what the UK New Labour party achieved in terms of its own social policy objectives over the ten year period 1997-2007. Ringen studied the flagship policies of child poverty, education, social justice and health. He found that they had achieved “absolutely nothing.” His study provides strong evidence for the systemic failure of UK governance by highlighting the problems that emerge when governments adopt a command and control approach and fail to mobilise citizens or stakeholders in policy development and implementation. His sobering conclusion is that no

UK government, of any political persuasion, can currently get done what it is elected to do.

Ringen's findings illustrate a situation that can be understood as a 'structure determined system'. It is not only governments that are constrained by the system in which they operate. Take utility companies that deliver social goods – such as water or energy. Most now have as a main measure of performance the profit derived from sales of water or energy and associated services. The system is not structured to recognise that in today's world the main social benefit from water and energy comes from how little water or energy is used and the efficiency of its use. We create measures of performance which conserve particular structural relations that give rise to particular forms of organisation. Only by inventing new organisations with different structural relations can we break out of the constraints that the old structures impose on our thinking and behaviour.

CHALLENGE #4: Seriously examine Ringen's prescriptions for the reform of the British 'constitution' in the Australian context

Ringen argues for:

- A return to genuine cabinet government, breaking the power that has moved to the Executive, which has distorted the historical 'constitution' on which the Westminster system is built
- The re-invention of local governance, something very different to local government as we know it (this can be understood as a new form of horizontal governance)
- Public funding of political parties through a citizen-based voucher system and the abolition of all donations to political parties, thus creating a level playing field sensitive to citizen interests and totally transparent.

INNOVATING IN SYSTEMIC AND ADAPTIVE GOVERNANCE

Our current governance system does not have the variety that is needed to maintain a viable system. Ringen's analysis looks increasingly relevant to the Australian context. In reinventing local governance (horizontal governance) we need bold institutional arrangements which protect the self-organising and emergent nature of the local and which is coupled more fruitfully with the existing vertical model that underpins our form of representative democracy.

There is no blueprint for doing this – we have to invent new ways forward. By framing the challenges in ways that embrace uncertainty and complexity we can relegate command and control strategies and optimisation strategies to where they rightfully belong – subsidiary to systemic and adaptive governance.

WHAT DOESN'T WORK:

Joined up government, targets and 'deliverology'

In the UK New Labour's catch cry of "joined-up government" was built on understandings of the 'third way' as articulated by Anthony Giddens. It espoused a desire to increase the extent of joint working between different parts of government and to identify innovative ways of delivering public services which served their Better Government agenda as well as reducing the cost of delivering public services and/or improving the quality and effectiveness of services delivered to the public.

As experience in the UK demonstrates, the notion of 'joined-up thinking' and 'joined- up government' became, conceptually and practically, an empty cliché. It can be argued, joined-up government failed because of inadequate conceptual and praxis skills and poor institutional settings to enact joined-up government. Targets and 'deliverology' in particular undermined New Labour's espoused intentions.

The 'targets culture' that became endemic in the British New Labour government as well as widespread in other areas of government and corporate life. The development of a targets culture is a good example of privileging systematic approaches over systemic, sometimes at considerable social cost.

As Simon Caulkin, *The Observer's* former management editor, rightly observed:

"The Health Commission's finding last week that pursuing targets to the detriment of patient care may have caused the deaths of 400 people at Stafford between 2005 and 2008 simply confirms what we already know. Put abstractly, targets distort judgment, disenfranchise professionals and wreck morale. Put concretely, in services where lives are at stake – as in the NHS or child protection – targets kill."

Simon goes on to say:

“Target-driven organisations are institutionally witless because they face the wrong way: towards ministers and target-setters, not customers or citizens. Accusing them of neglecting customers to focus on targets, as a report on Network Rail did just two weeks ago, is like berating cats for eating small birds. That’s what they do. Just as inevitable is the spawning of ballooning bureaucracies to track performance and report it to inspectorates that administer what feels to teachers, doctors and social workers increasingly like a reign of fear.”

John Seddon has been an erudite and consistent critic of New Labour’s commitments to targets and ‘deliverology’, a term coined by Sir Michael Barber, a former Downing St insider. Unfortunately ‘deliverology’ seems in danger of breaking out in Australia. Responding to criticism of failed service delivery, the former Prime Minister Kevin Rudd’s strategy for the future had all the hallmarks of ‘deliverology’ gone mad. He said:

“We need to lift our game, I need to lift my game, in terms of delivering on these undertakings... The key thing for us is to get on with the business of delivering to the Australian community, in critical areas of need, in health, in education, in real action on climate change as well... This is critical for the future, and we’re taking a pounding because we haven’t been up to the mark so far... I think people are becoming disappointed at the pace of the delivery of the commitment that we have made.”

One can be sympathetic at the sentiments that appear to lay behind this act of *mea culpa*, but in its framing and in its prescription, it is a recipe for ongoing systemic failure.

AN AGENDA FOR FUTURE PUBLIC SECTOR REFORM

1. Our concept of the reform process needs to be expanded to include the need to reinvent governance
2. Those responsible for managing public sector reform need to reframe the issues. The reform agenda as currently framed – as one of better administration, service delivery, narrowly defined efficiency and enhanced command and control by the executive – is a recipe for poor governance

3. Intractable policy issues require more systemic approaches; governance arrangements are needed that broaden our definitions of problems by opening up the process to a wider range of perspectives
4. Investment in the skills of systems thinking and practice is an urgent priority that needs to run in parallel with the invention of new institutional arrangements that are conducive to engaging with and managing complex, 'wicked' situations
5. New experiments in horizontal governance are urgently required. A good starting point would be to reinvent catchment management authorities so that they operate nationally to govern water, rivers and human livelihoods as a coupled social-ecological system. Such authorities would work most effectively with an income stream (e.g. a rateable base) that is independent of government short-termism. A similar model needs to apply to Australia's cities.

“The quality of a society rests on the ways in which it values the connections between people – not just on the sum of their individual well-being.”

Strengthening the social fabric

By Eva Cox

THERE ARE TWO good arguments for framing policies to create more civil societies: one is that life will be better for all, the other is that we will feel it is. Democracies should be social systems that distribute the myriad of experiences, resources and relationships fairly and civilly. Effective policy responses to global financial and climate crises require high levels of good will, resilience and generalised trust rather than a culture of fear and self interest. Governments need the trust of voters to make legitimate decisions for the common good, and that depends much more on social well-being than on individual economic circumstances.

Policies that increase social well-being must take into account the quality of our links with those we know, whether at home, at work or in communities, as well encouraging the growth of quality ties with those outside our immediate circle.

Good policy making, whether in the classically social portfolios, on environmental issues, or economic ones, must also be framed by accepted views of the kind of society we want to live in. Setting overarching social priorities would improve both the effectiveness and coherence of public policy making and avoid damaging the social fabric through the application of inappropriate economic models.

This distinction has become necessary because too much policy making by both past and current federal Governments has failed to recognise the limits of economic analysis and applied it willy-nilly to inappropriate areas. Economics is a social science, built on limited assumptions about human behaviours that can usefully explain some but not most behaviours. Good policies need to balance the social purpose of the nation state against the practice of making more money to fund its expenses.

When policy-makers assume that the economy is an end in itself the policies shaped by that assumption can be socially damaging. Whether it's through the attempt to enforce engagement in economic activities through coercive policies or the implementation of economic policies that increase inequality, the blindness to the social purpose of policy creates social rifts, damages social cohesion, increases anxieties across the board and reduces engagement by those who feel excluded and disrespected.

This chapter looks at two main areas in which flawed assumptions are skewing our policy priorities: the mix of tax and transfer policies that collect

and redistribute public dollars, and the suite of measures grouped under the inaccurately named 'social inclusion' portfolio.

'SOCIAL INCLUSION' SHOULD BE ABOUT MORE THAN PAID EMPLOYMENT

The word 'social' features only rarely in current policy agendas, and there is no priority given to this area of policy in election debates. This reflects the dominance of economic over social equity issues reflected in the *What does 'progress' mean to you?* chapter of this publication. It is no surprise, therefore, that the Social Inclusion portfolio has ended up having social in its name but not in its mandate or its measures of success. When economic activity is seen as the most important measure of social progress then welfare reform is seen as employment policy, paid parental leave is justified by its contribution to workforce participation and productivity, and the Indigenous closing the gap strategy is too often seen through the lens of jobs. This assumes that the primary aim of social policy is to make all individuals fit a narrow definition of 'independence' and that paid work is the most socially useful way that anyone can spend his or her time. It leaves out all questions of social relationships, as well as failing to recognise the importance of cultural connections, social responsibilities and care for country and others.

There are interesting questions being raised internationally on the important role that making time – not just money – plays in increasing social well-being. The New Economics Foundation is exploring 'time banking' as a way of recognising the non-monetary value of time spent helping others. The Foundation describes the outcome of time-banking programs as 'a parallel economy, using time as the medium of exchange, putting these forgotten assets to work meeting the forgotten needs, and by doing so making connections between people and rebuilding a sense of trust.'

The sharing of paid and unpaid work is part of good parenting and good communities. Full time employment (or over-employment) for some and none for others is not a good basis for dealing with climate change and diminishing resources. However our tax and transfer systems continue to penalise part time workers, particularly those with limited time or paid work capacities, while rewarding the wealthy.

Higher participation and productivity requires a workforce that is comfortable with its non-work roles as well. This means a tax and transfer system that is not clearly linked to the residual Justice Higgins wage earner model, which assumes that an unpaid support system exists for all workers. It must recognise the value of the informal care and cultural sectors to enhance the capacities of communities to manage workplace and other changes.

Better policies for tax and an income security system should involve integrating ideas from successful Indigenous standpoints and some related feminist critiques of current public policies. These marginal viewing points provide useful guides for moving outside the overly influential economic models to a more inclusive social system. Using the failure of western (male) goals for education, health and family functioning in Indigenous communities can contribute to our understanding of how to engage in collective well developed social cultures. Similar, but less obvious, is the need for inclusion of aspects of the social system that have been seen traditionally as female or the private domains of home, care and social cohesion. A system that balances and integrates the social and cultural domains into forms of income support can provide both better social outcomes and economic ones.

HUMAN NATURE: We're just not that simple

These and other policy mistakes can be traced to flawed but deeply ingrained assumptions about human nature:

- Classical economics assumes that humans are rational self-interested individuals, so all that's needed for good policy is to get the price incentives right. The logical consequence is that those who make the 'wrong' choices should suffer the consequences. This assumption triggers a contradictory conservative desire to enforce 'good' behaviour and avoid the costs of deviance.
- This assumption creates policies to make people self supporting and assumes that if they don't have jobs, it is because they have problems: they're lazy, or maybe have other personal flaws. Therefore, at best, they may need treatment for lack of skills or for personal or group health or character flaws. The implication is that government needs to change, pressure or punish them until they get a job.

This approach ignores systemic bias: the inequalities of how societies allocate resources and opportunities. Instead it assumes individual problems with fitting in. It is an approach which denies the fact that there is such a thing as unequal power in society.

Being part of fractured, unequal, untrusting societies is stressful even for those who benefit from inequality and more so for those at the bottom of the pile. Increases in income don't automatically lead to better social outcomes, as has recently been shown in the work of Michael Marmot, Richard Wilkinson and others. Their meticulous research finds that equality levels are better indicators of the quality of life than average per capita GDP.

The explanation for this finding is that well-being rests more in perceptions rather than the direct material impact of inequalities. Other recent research shows that humans mix emotions with reasons in assessing quality of life, and in particular that there is a gut reaction to unfairness, however defined. Therefore people's perception of their societies as unfair can affect well-being overall and undermine the sense of agency required for society to function well and for people to be willing to contribute to the common good.

Governments need to make policies that help society become more civil. Individuals exist within a network of relationships – individuals' happiness does not only depend on their own circumstances, but on their relationships with those around them. The quality of a society rests on the ways in which it values the connections between people – not just on the sum of their individual well-being.

WHEN SOCIAL INCLUSION BECOMES SOCIAL EXCLUSION POLICY

The government's social inclusion policy is a major indicator of its social agenda, despite the policy being relatively low profile and having few budget items. This policy area states that its aspirations are "reducing disadvantage, increasing social, civic and economic participation and developing a greater voice, combined with greater responsibility." This may sound relatively broad but the actual priorities are much narrower, as indicated in their documentation of the issues on their webpage – and the programs they fund for implementation.

The delivery model for welfare payments puts many conditions on recipients which are designed to push them into certain activities and make them

employable. So it assumes that the major faults lie with the excluded, whether as individuals or in some type of community. Therefore the current government view of its own role is to provide remedial services, coercively if necessary, to ensure that the people involved move into approved slots in the economy. The way to show success is to become employed, or at least be obviously preparing for employment. The message is clear. People are only valued and included if they are self-supporting members of the paid workforce.

This area was part of the now Prime Minister's portfolio, and her various statements about the importance of hard work and the emphasis on finding people jobs as the way ahead suggests the deep embedding of these assumptions in the newly-elected Gillard Government. The Coalition already signalled its views when in government by its Welfare to Work policies, which have continued under Labor.

EVIDENCE-LESS POLICY

Unfair and ineffective

These approaches to what is seen as individual, or at best community, dysfunction fail to take into account the findings of Marmot et al. Their research seriously suggests we need to look at whether high levels of social dysfunction, as is seen within some Indigenous communities and other poorly functioning outsider groups, may derive from the loss of a sense of agency because of perceived systemic unfairness.

The Northern Territory Intervention and the more recent expansion of its income management scheme to other working age recipients is the wrong response to long-term despair as it focuses on fitting 'flawed' individuals into an existing social system without recognising the flaws in the system itself. This is despite the lack of evidence that such strategies work.

There is no recognition that many of those who end up on Newstart may be excluded because of prejudice or inappropriate workplace demands. Nor does the current system recognise the difficulties single parents face in finding jobs that fit in with care, let alone dealing with employer prejudices against them, as shown in research I and others did for the New South Wales Department of Women.

ot only is such policy making seen as unfair, it does not work. The experience of the original compulsory income quarantining of 50 per cent of government payments in the 73 communities has produced no evidence that it has improved life and reduced risks in these communities. However, it is being extended to the rest of the Northern Territory and de-racialised under claims that it will restore fractured families. This demonstrates an official conviction that income control results in positive behaviour change that overpowers evidence, reason and logic.

By pressuring all those out of paid work into jobs, without regard for their other responsibilities, the time for care of others is limited. This may sometimes reduce direct government spending, but at what social cost?

CHANGES ARE NEEDED

Recognising the socially useful activities requires an equitable tax and transfer system to redress the cultural and gendered divide between activities that are publicly recognised or not. This becomes a problem when payments are income tested on joint incomes, which unfairly penalises the lower income earner, as recognised in the Henry Review, or by intersections of tax and welfare payments.

Indigenous societies value the activities of engaging with kin, sharing stories, caring for country, ceremony and traditions, as highly as earning money. Similarly, most unpaid activities within other communities, households and family are overlooked despite being essential to wider social functioning. The way that public policy undervalues the costs of our social obligations for care and social maintenance can be particularly harmful to the more vulnerable, less resourced people who have to cope with difference and change.

Ken Henry, in the Tax Review and in other speeches, showed his awareness of social and ethical issues involved in taxing and spending designs. The design of tax and transfer payments can be powerful affirmations of what a society values and what it condemns. The distinction is best illustrated by the attitudes of the media, public opinion and in policy making towards 'entitlements' to tax cuts and concessions compared to the moralistic, controlling and downright mean attitudes to 'welfare' payments. Yet \$100 paid under either system costs the public the same amount.

Therefore, any examination of these major policy areas needs to define its principles and purposes. The overview of the Henry Report starts with the following claim in the letter to the Treasurer: “The Report presents a vision of a future tax and transfer system that would position Australia to deal with the demographic, social, economic and environmental challenges of the 21st Century and would enhance community wellbeing.”

Note the word social is there as it is in an earlier Australia Council of Social Service (ACOSS) speech where Henry was quite explicit about his aims in the Review.

“I chose the title of this speech — ‘how much inequity should we allow?’ — for a couple of reasons. For a start, it is mildly provocative, which I thought might help pique your interest. The instinctive response of many to the question would be to answer — none; a just society would not tolerate any inequity. Of course, beyond this instinctive reaction things get complicated...

Secondly, I selected this title because I consider this to be one of the most significant choices society faces. Indeed, the question assumes inequity is a social choice. And it is. Leaving fairness solely to the market to determine should be unacceptable to a civilised society. Societies will choose how much inequity they allow according to the institutions, norms, laws, policies and programs they adopt.”

The following recommendations and principles follow his stated intentions with more emphasis on the social than he was able to do. Therefore a tax/transfer system, in what it collects and redistributes, should affirm what is seen as socially as well as individually valued.

PRINCIPLES FOR CHANGE

This involves setting up principles for long term changes to policies that:

- Recognise engagement in social as well as economic activities needs to be on the government’s agenda when setting the criteria for funding and taxing.
- Policies need to balance earning income through producing goods and

services for money with the many other aspects of life which warrant public encouragement and support.

- This should include the full gamut of useful social roles, some paid and many unpaid, some formalised but others informal. Public recognition should encourage appropriate engagement with personal wellbeing, the needs of others and the common good.
- Payments, tax imposts, concessions and rebates need to contribute to the overall progressiveness of the system, or at least be justifiable as fair.
- Systems changes need to recognise diverse cultural values and be gender neutral.
- This may involve reviewing the units of payment to deal with the clash between taxing individual incomes and transfer payments that assume interdependence and shared resources.
- New de facto legitimisation also carry problems as transfer payments can assume that co-habitors may be responsible for each other, even if they deny this
- The gap between pensions and benefits needs to be decreased or abolished to recognise minimum income needs are related to workforce participation.
- The tax/transfer system should be based on assumptions that people, in general, will be prepared to take responsibility for their income needs if the wider social system treats them fairly.

SPECIFIC POLICY PROPOSALS

- Stop the extension of income management in the Northern Territory and possibly other disadvantaged areas in Australia as it permanently shifts the basis of income support from facilitative to punitive, particularly for parents.
- Where communities require income management, they should be

offered the option of voluntary community based packages of income management and allied support services or in response to individual or household behavioural triggers.

- Return all sole parents income recipients with children under 12 to the parenting payment rates and conditions to ensure that they have enough basic income
- Urgently review the payment levels of Newstart and other benefits and raise it to an adequate base payment.

REFORMING THE BROADER SYSTEM

Mainly from the Henry Review

- Establish an independent tribunal to set and maintain payment levels to remove the decisions from populist political pressures with a brief to establish a basic income support level for all.
- Design categorical income supplementation and support programs that recognise needs for financial support for both the direct costs of children, and the costs of reduced access to paid work and the extra costs of disabilities.
- To facilitate movement between paid work and care-based time demands, accept the principles outlined in the Henry report for reducing effective marginal tax rates but inquire further into whether this is best done by changes to the tax or to the means test to reduce current effective marginal tax rates.
- Set up a review of cohabitation and interdependence under the Human Rights Commission.
- Accept the principle in the Henry recommendation that there be a single family tax benefit payment and that the total amount of family assistance should be withdrawn with a single rate to avoid overlapping withdrawal disincentives for working.
- Explore the Henry proposal possibilities of taxing payments rather

than income testing them and other ways to reduce the savage effective marginal withdrawal rates.

RETIREMENT AND NON EMPLOYMENT INCOME

- There should be a retirement bonus payment as a top up for those who have zero or very limited superannuation (\$10,000) or other forms of saving by themselves or legal partner. This payment would supplement those solely receiving the single age pension who have often had good reason for being unable to save or contribute and balance the public contributions to substantial retirement income via tax concessions.
- A longer term options could be a social investment income support payment to be made available for people who engage in extensive socially valuable tasks in communities. This could encourage community services generally as well as make viable communities where there are no other sources of funding e.g. in isolated areas such as homelands.

CO-HABITATION REFORMS

- Questions of joint income testing (transfers) versus individual own income testing should slowly move towards being similar across tax and transfer systems, but in the meantime co-habiting should be assessed on shared income and costs.
- The law should recognise that social relationships do not equate with financial ones where there is no legal obligation or evidence of shared financial resources.
- Pooling of incomes should be assumed only where there is evidence of shared control over a set proportion of incomes or a formal agreement for funds to be pooled for use by both parties.

CONCLUSIONS

The above recommendations are a very brief set of policy proposals in response to complex issues. They point to alternative approaches to those adopted by both the major parties during the 2010 election, and seek to counter the scramble to sell the economic credentials of the major parties to voters via bribes and fear of tax increases. The evidence can be read to show that people distrust those who offer bribes and bargains and prefer trustworthy leadership. In the long run politicians cannot hope to retain voters' trust while pursuing unfair and ineffective policies based on flawed assumptions about what is important to people and society.

“If we measure growth in GDP then this is what we will achieve. If we measure economic stability, environmental sustainability and the well-being of people, then we are more likely to achieve it.”

What does progress mean to you?

By Tani Shaw

WHEN IT COMES to the really important things in life, research shows that people from all walks of life share a lot in common. The things that we value most seem to be spending time with those we love, a fulfilling job, a healthy life in a safe and secure environment, access to a good education and health care, time in the sunshine enjoying nature and Australia's beautiful landscapes, the right to believe and vote according to our values and a sense that we are part of a community.

The other chapters in this book show different areas in which Australians want progress. 75 per cent of us support stronger human rights protections for example, and 72 per cent want action on climate change, even before a global agreement is reached. Very little has been done in either of these areas. Why? What other forces may be overriding this clear call for change? Part of the problem lies with a single statistic that governments and economists use to track how Australia is performing economically. This simple statistic is often treated as the most important measure of whether or not we are on the right track as a country. It is 'GDP' or Gross Domestic Product. Despite being aware of its limitations, many policy makers, political leaders and commentators treat GDP as the most important measure of the 'progress' of our society and our 'quality of life'. GDP measures the total amount of goods and services sold in Australia each year. When GDP is seen as the primary measure of success, then the most important economic goal of any 'good' government is to make sure that GDP grows every year.

A large part of the debate over whether Australia should introduce an emissions trading scheme before most other countries turned on whether this would make us less economically competitive than the countries that delayed. If so, we were told, this would negatively impact on 'economic growth'. Other countries were having the same debate, and although the facts pointed in the opposite direction, even the fear of harming GDP growth was enough to stop many politicians in their tracks. The wish to keep GDP growing at any cost has contributed to the current international stand-off on climate change. The costs associated with climate instability are going to be enormous...but let's not think about that now. There are short term gains to be won.

So does producing more each year actually help us to secure what we value most? Of all of the 'universally valued' things listed above, none of them are counted in GDP (although below a certain level of GDP per capita some of these things tend to be far less attainable). So why does this measure have so much influence over the way our country is run? This chapter aims to unpack that

question and to describe a movement that exists in Australia and worldwide to find a better way to measure 'progress'.

If we are measuring and aiming for economic growth in GDP then this is what we will achieve. If we are measuring economic strength and stability, environmental sustainability and the well-being of people then we are more likely to achieve it. This brings us to key point #1:

KEY POINT #1 – National primary statistics and indicators need to reflect the goals of society

Firstly, let's unpack GDP a bit. GDP was not designed to be the main indicator of progress. In 1944 each country had different types of systems for national accounts. This caused problems because when one country's figures changed the other countries didn't know how to react and this caused unnecessary fluctuations in international markets. So in 1944 at the Bretton Woods conference in the U.S. 144 nations decided to choose a single measure by which to compare economic activity between countries, GDP. The goal was transparency and greater economic stability.

Economists then began to equate GDP growth with the economic well-being of individuals. So what does 'economic well-being' really mean? In 2009 President Sarkozy of France commissioned some of the best economic minds in the business, Nobel prize winners Professor Joseph Stiglitz and Professor Amartya Sen, together with Professor Jean-Paul Fitoussi to look at GDP, economic performance and social progress. They identified some pretty significant gaps in the usefulness of GDP as a way to measure economic well-being.

GDP does not include all those types of personal economic well-being that cannot be measured with a price tag, such as support at home from family and friends, volunteer work in the community and many other activities which can make a difference to the affordability of someone's existence. As well as not measuring a lot of activity, GDP is so unrefined that if there is a major environmental accident, GDP generally goes up because of the cost of the clean up and if there is a war, it goes up because of the boost in weapons production.

GDP also does not include many of the positive and negative things that happen when purchasing something. An inexpensive item like a bus fare

to visit a relative may hold much more 'value' than an expensive repair to a car. Economists call these hidden values 'externalities'. Negative externalities include pollution or toxic waste that a product may leave behind or under-priced access to a natural resource which is depleted or lost in order to produce something.

Sometimes goods and services can cost more than they are actually worth just because they are difficult for people to understand, such as complex financial and investment packages or mobile phone plans. They may be expensive and will be counted in GDP, but may not represent a high level of value to someone's economic well-being.

Finally, and this is a big one, a country can have high GDP but have a huge gap between rich and poor. GDP is calculated for the whole country then divided by the number of people to get an average figure. So if Australia has a large number of poor people, we will not be able to tell this from looking at GDP.

When it comes to the natural environment, on which we depend, the biggest problem with the GDP growth model is how unsustainable it is in the long term. As GDP grows, so do negative externalities. With GDP growing at four per cent each year, total production doubles every 18 years. If you match this increase with population growth, expected to reach 35 million in Australia by 2056, then our current model of GDP growth would have each person in this larger population producing more each year. If current patterns continue, this would lead to resource shortages, accelerate species extinction and many other environmental impacts. This may come with the benefits of genetically modified food, mass produced consumer goods and hi-tech living in concrete jungles... but is this the type of life we want?

So, if GDP is so inadequate as a measure of national progress then why aren't more people talking about it? Well there has been an active effort by the Australian Bureau of Statistics (ABS), the Australian Treasury, academics and non-government organisations (NGOs) to put forward a broader approach to measuring progress. Since 2002 the ABS has put out a report called *Measuring Australia's Progress*. The Australian Treasury also has a wellbeing framework for strategic planning and decision-making. Policy think tanks and NGOs including the Centre for Policy Development, The Australia Institute and the Australian Conservation Foundation are actively involved in sustainable economy and well-being initiatives. The ABS also gathers a wide range of data

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from health and education to the environment, to help inform wider measures of progress.

Broader measures of progress exist, such as the ABS *Measuring Australia's Progress* report. However the dominance of GDP as the main indicator of progress remains in policy decision making and announcements to the Australian public. This brings us to the second key point:

KEY POINT #2 – GDP growth dominates and overrides all other measures of progress

If we are to achieve economic strength, environmental sustainability and societal well-being, statistics will help inform this process but will not change it. The change comes from how policy is made by government...when taxes are being decided on such as an emissions trading scheme, or budgets are set to fund initiatives such as free dental care for all Australians, or new laws are created such as container deposit legislation which has been stymied by drink companies and bottle manufacturers for years.

Collecting statistics does not change anything. The change comes from the use of the new measures in government decision making.

This raises key point #3:

KEY POINT #3 – Indicators alone cannot change the way we measure progress, the real test is how policy is developed and communicated

How do we influence how policy is made? One way is for governments to design policy based on the needs of the citizens of Australia. This has been put forward recently by the head of the Department of Prime Minister and Cabinet, Terry Moran, who in March of 2010 released a paper entitled *Reform of Australian Government Administration: Building the world's best public service*. Moran proposes in chapter six of the review that the needs of citizens be the starting point for all Australian Public Service Programs. But how can the needs of citizens be determined?

One approach which is gaining popularity, particularly at the local and regional level of governments, is extensive citizen input. Projects are popping up around the country, such as Community Indicators Victoria and the commencement

of the development of the Australian National Development Index. Such projects seek to determine what Australians consider to be “progress” through extensive consultation. Another example worth mentioning, due to its solid reputation amongst statisticians around the world, is the Canadian Index of Wellbeing which involved extensive consultation with Canadian citizens.

“Consultation” is a bit of a dirty word in some circles. It smacks of tokenism and lip service and there are plenty of community groups who have been badly burned by giving up their time to contribute ideas only to have decisions made which ignore them. Never-the-less, consultation seems to be moving from tokenism to becoming a vital part of our democratic processes for governance.

There is also some promising news from the “top”. Australia is part of the club of richest nations in the world, known as the OECD (Organisation for Economic Cooperation and Development). It is an invitation only club but non-member countries also participate, sharing knowledge in many areas, including national statistics. For decades statisticians from each member country have been gathering data on all manner of things, from health to education, the economy to the environment. The United Nations also does the same thing, but is more focused on developing countries.

Something started happening about five years ago within the OECD. Statisticians started turning out in big numbers to discuss the notion of “progress” and how it is to be measured. The OECD found itself home to a social movement for change, coming from statisticians, calling for a broader measurement of “progress” that goes beyond just economic growth. This movement reminds me of the green ban marches that happened in Australia in the 1970s. Builders in Australia were protesting at the demolition of heritage buildings and the construction of inappropriate building. The builders protested to the point of stopping major construction jobs. The construction companies lost millions of dollars and the builders, whose bread and butter came from construction, lost their income. The result however was the introduction of new demolition laws to preserve buildings of special significance

Statisticians may not be going on strike, but in a way they are on the front line as the builders were. Statisticians are the interface between policy makers and the public, and according to the chief statistician of the OECD at the time Enrico Giovannini, they are saying that “we are measuring the wrong thing”. They are diligent, dedicated professionals and to do their job well they have to become good listeners. Good research and statistics is now based increasingly

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on consultation rather than observation from afar. Statisticians have been joined by academics, NGOs, philanthropic organisations, The World Bank, the United Nations Development Program and others to call for changes to the way we measure progress.

The Australian Bureau of Statistics is an early adopter in this movement for change. However, none of this action means anything if, at the end of the day, it fails to influence the way policy is made by government. At the moment the greatest signs of influence are at the local and state level, with projects such as Community Indicators Victoria. The implementation of the Moran Review in the Australian Public Service provides an opportunity to find innovative ways of determining the “needs” of the Australian public. Perhaps this will foster a culture of consult first, plan later, in the public sector. The head of Treasury, Ken Henry, is also a vocal advocate of incorporating environmental sustainability into our national fiscal policy as a matter of urgency. ABS and Treasury are advisors, but are not the decision makers. Ultimately it is the prime minister and elected ministers who can choose whether or not to heed the advice and instruct policy makers to incorporate broader measures of progress at the outset of policy development.

In 2009 the OECD Global Project entitled “Measuring the Progress of Societies” conducted training courses for future policy makers in various countries, including the Australian Bureau of Statistics in Canberra. In the course a framework was presented by which broader measures of progress could be incorporated at the outset of policy development. During the scoping and initial design of a new policy, dimensions of progress are nominated and indicators by which the dimension could be measured. For example, when developing a policy for new release of a region for urban development broader measures of progress could be incorporated into the policy through the design of an indicator table as follows:

Example – Measures of progress for new urban development

Dimension	Economic Strength	Environmental Sustainability	Societal Well-Being
Indicator	Indicators for Housing	BASIX compliant housing	X% houses have access to open space, park and facilities
Housing	Affordability & Strong Resale		
Infrastructure	Creation of local employment for X% of residents	X% water and power generation locally Nature corridors in land design	X% have close access to parks, shops and community facilities.
Transport	X% residents have access to affordable, rapid transport to work.	X% of residents travel on public transport as main form of transport	X% residents have close access to public transport and community facilities

The use of dimensions and indicators, as above, can assist policy makers in determining measurable outcomes for the various elements of “progress”. Much will depend however on the brief for policy design, which comes from the relevant minister. This brings us to another key point.

KEY POINT #4 – Moving beyond the GDP growth paradigm to broader measures of progress requires a choice by elected politicians to change the way policy is developed

The extent to which a policy maker can influence the dimensions and indicators for a particular policy outcome may vary within each organisation. In the meantime individual policy makers – whether they are a policy maker in a government department, an academic, a statistician or a minister – have the opportunity to incorporate broader measures of progress into the planning. A groundswell of interest will create an environment conducive to change.

What does progress mean to you?

If things do start to change, the signs will be that policy announcements from politicians will focus less on economic growth as the magic cure for quality of life in Australia. GDP will no longer be regarded as the only guiding light for moving us forward. We will know things have changed when we turn on the radio in the morning and instead of hearing how our problems are solved because we've produced a whole lot more stuff than last year, the news will read something like this:

Australia's national progress improved overall last quarter, according to our National Development Index. We saw a rise in the sustainability index due to the significant improvements to water flows in the Murray-Darling; our economic strength index dipped slightly due to unexpected delays in the implementation of the much-anticipated Emissions Trading Scheme and our well-being index rose sharply on news that the Federal Government will cease the Intervention in the Northern Territory, in accordance with international human rights law.

Some commentators have argued that implementing an index of this kind would be a mistake because it is inherently flawed owing to the subjective nature of its basic value judgments. After all, who will decide which components are included in such an index and how much weighting/emphasis should be given to one aspect of progress over another? There is some merit to these concerns. However, a better way to look at this challenge might be to ask:

Would this be more or less valuable and informative than using a single, unrepresentative measure of production as the national indicator of whether or not quality of life in Australia is getting better or worse?

“Much of Australia’s
resilience in the
face of the global
crisis can only
be attributed
to good luck.”

Surviving the next crisis

By John Quiggin

WRITING IN THE 1960s, Donald Horne described Australia as 'a lucky country run by second-rate people who share its luck'. Judging by the experience of the global financial crisis, Australia's run of good luck has continued. There is a credible argument to be made that good economic management contributed to Australia's escape (so far at least) from the serious impacts of the crisis experienced in most other countries. It is clear, however, that good luck played its part.

The crisis has bankrupted large numbers of financial institutions, corporations and some governments. It has also demonstrated the bankruptcy of the regulatory systems that were supposed to manage the global financial system, and the ideology of market liberalism on which those systems are based. A re-examination of both institutions and ideology is urgently needed.

THE GLOBAL FINANCIAL CRISIS

As long ago as the early 2000s, a handful of economists pointed to the unsustainability of the imbalances in the US and global economy that developed from the late 1990s onwards. The most obvious imbalances were the massive trade deficits that emerged in a number of, mainly English-speaking, developed economies (matched by surpluses for Asian exporters) and the huge growth of the financial sector relative to the economy as a whole. These imbalances were closely intertwined. It was only the growth of the financial sector that permitted the maintenance of consistent large deficits on the trade balance and current account, at levels that would, in earlier periods, have resulted in an economic crisis.

By contrast, the dominant market liberal ideology encouraged the view that these developments were benign. The massive growth in the volume of international financial transactions was seen as reflecting the (presumptively rational) voluntary choices of borrowers and lenders, and as a way of diversifying risk internationally. A localised failure in any one economy could not cause significant loss to investors with highly diversified portfolios. And central banks extended 'too big to fail' protection to any institution large enough to be critical to the sustainability of the system as a whole. The only way a system of this kind could fail was through a total global collapse.

And that, more or less, is what happened.

In scale and scope, the crisis was larger than any financial failure since the Great Depression. The estimated losses from financial failures amount to \$4 trillion or about ten per cent of the world's annual income. Losses in output from the global recession have also amounted to trillions, and recovery has barely begun.

Unlike the Great Depression, this crisis was entirely the product of financial markets. Financial markets and major banks were lightly regulated by governments under systems that relied, in large measure, on risk assessments undertaken by the banks themselves, which were based, in large measure, on the ratings issued by agencies such as Standard & Poors and Moody's.

All of the checks and balances in the system failed comprehensively. The ratings agencies offered AAA ratings to assets that turned out to be worthless, on the basis of models that assumed that asset prices could never fall. The entire ratings agency model, in which issuers pay for ratings, proved to be fundamentally unsound. But, these very ratings were embedded in official systems of regulation. Crucial public policy decisions were, in effect, outsourced to for-profit firms that had a strong incentive to get the answers wrong.

To these systemic failures was added the exposure of long-running fraud on a massive scale. While Bernie Madoff put others in the shade, the collapse of the bubble brought to light a string of frauds involving tens or hundreds of millions of dollars.

THE RESPONSE

At the beginning of 2009, the world faced the prospect of a recession more serious than any since the Great Depression. That prospect was staved off by bank bailouts and policies of fiscal and monetary stimulus were successful in containing the damage. Monetary policy was used to an unprecedented degree. Not only were interest rates cut to zero, but central banks undertook extensive 'quantitative easing', that is, purchasing financial assets such as corporate bonds, from financial institutions.

Despite all these measures, the global recession has been the most severe in the post war period. At the time of writing unemployment rates approached ten per cent in the US and EU. With the costs of bailouts threatening a new round of crises, a second round of recession seems likely.

AUSTRALIA'S GREAT ESCAPE

According to the popular criterion of two successive quarters of negative growth, the Australian economy escaped recession altogether. How did we do it? The main candidates for explaining this remarkable outcome are:

1. Good macroeconomic management
2. Good economic fundamentals, arising from the reforms to the economy undertaken since the 1980s, and
3. The good luck on which Australia has always relied.

Good management

Australia has benefited from good economic management. Advance warnings from the collapse of Bear Stearns in March 2008 gave the government and monetary authorities time to prepare a response to the meltdown that took place the following September. The reserve bank relaxed monetary policy, and the Australian government responded more rapidly and vigorously than many others with fiscal stimulus – an immediate cash handout in December 2008 and a much larger stimulus package in early 2009, softened the recession to the point where it has been one of the milder downturns of the period since the 1970s. This was accompanied by a decision to guarantee banks retail deposits and (temporarily) their wholesale borrowings. Broadly speaking this response was effective in insulating the Australian financial sector from the global collapse.

Unlike the relaxation of monetary policy, which received broad support, the fiscal policy response to the crisis was controversial, with the stimulus package being rejected by the main Opposition parties. The success of the stimulus now seems clear. In the context of the forthcoming election, it is important to remember that on the biggest economic policy issue in decades, the Rudd-Gillard Government got the choices essentially right, and the Coalition Opposition got them completely wrong.

Good management can't provide a full explanation of Australia's escape from the crisis. Our starting point was much better than that of many other countries, in that only a handful of small financial institutions (mainly mortgage securitisers such as RAMS) got into difficulties, and none failed outright. Macroeconomic policy had to manage the flow-on from the global crisis, but not a domestic financial meltdown like those affecting most developed countries.

Was this the result of sound fundamentals, as has been widely claimed, or, as Donald Horne would doubtless suggest, good luck?

Good fundamentals

Claims about good fundamentals rest on both:

- The microeconomic reforms undertaken in the 1990s, and
- The suggestion that our financial sector is more soundly structured, better regulated and more conservative in its practices than those in other developed countries.

The first of these claims can be dismissed fairly easily. There is no link between microeconomic flexibility and macroeconomic stability. In fact, just as in the Asian crisis of the 1990s, the countries hardest hit by the initial round of the global financial crisis (Iceland, Ireland, the Baltic States) have been precisely those that have undertaken the most comprehensive reforms along market liberal lines.

The view that our financial system is more soundly structured than others has some validity. Australia's system of prudential regulation helped to avoid the emergence of large-scale lending to borrowers with little or no capacity to pay, along the lines of the 'sub-prime' market in the US. Reserve requirements ensure that financial institutions would remain stable in the face of a moderate decline in house prices. The four pillars policy against bank mergers, long derided by supporters of financial deregulation, prevented the banks from adopting risky strategies in the pursuit of competitive advantage.

The paradox behind our good fundamentals is, as former Reserve Bank Governor Ian MacFarlane has observed, that the current structure of our financial system is a result of the rejection of market liberal policy reforms.

Good luck

Much of Australia's resilience in the face of the global crisis can only be attributed to good luck.

Despite there being plenty of Australian bankers who experienced the 'cowboy' era that followed financial deregulation in the 1980s, and the near-failure of

major banks in the 1990s recession, that experience wasn't enough to keep the major banks from close involvement in the financing of new speculative ventures. Examples include the Commonwealth Bank's promotion of Storm Financial and ANZ's financing of Opes Prime, both of which ended in disaster. Given a few more years, such activity might have expanded to the point where it threatened systemic viability.

Even aspects of our policies and economic fundamentals that seemed likely to increase our vulnerability turned out to work for the best. Our status as a net international borrower meant that our banks showed less interest in toxic US assets. As MacFarlane said "I have no doubt that if Australian banks had a surplus of domestic funds, they also would have acquired a lot of dubious assets, just as many of our counterparts did." The current account deficit may have saved our banks from themselves, but it remains a major vulnerability if the global crisis worsens.

And the prosperity of our financial system depends, in large measure, on the fact that governments have managed to prop up housing prices, in sharp contrast to the rest of the world. Although house prices have fallen sharply in many countries, they declined only marginally in Australia, and have already recovered much of the lost ground. This strategy was probably necessary, but it remains high-risk.

THE NEXT TEST:

Will we be so lucky with the sovereign debt crisis?

By early 2010, the cost of the bailout and the likelihood of further banking failures had begun to threaten the solvency of national governments. Some peripheral countries such as Iceland and the Baltic States had already experienced sovereign debt crises. Governments in these countries lacked the resources to rescue their failed banking sectors, and were forced to adopt austerity policies that exacerbated the recession. The economic impact of the crisis in these countries was comparable to that of the Great Depression.

Such systemic problems emerged first in Greece. During the 1990s, Greek governments had nominally complied with the euro convergence targets, requiring them to reduce budget deficits to less than three per cent of GDP, and public debt to less than 60 per cent. In reality however, they had engaged in a range of expedients to hide debt, using financial instruments designed by

the same financial sector institutions (most notably Goldman Sachs) that had produced the subprime crisis in the US.

The EU has acted, with a vigour and determination surprising in that normally unwieldy body, to establish a fund of around \$500 billion euros to prevent defaults on government debt. It seems clear, however, that bondholders will have to bear significant losses, whether these are brought about through rescheduling, renegotiation or simply through inflation.

Further rounds of crisis, possibly involving the UK and US, seem very likely. The stability of the global financial system is being tested once again, this time with much less capacity for a public bailout. Australia needs to be prepared for such an eventuality.

A PRESCRIPTION FOR FINANCIAL RESTRUCTURING

In view of the spectacular failure of financial regulation around the world, which was broadly similar to regulation in Australia, it might be expected that the need for a fundamental review of our regulatory systems would be generally accepted, if only to identify “what went right” in Australia compared with the problems overseas. In fact, there is no such agreement.

The Commonwealth has rejected calls for a broad-ranging inquiry into the financial system; though there were some hints that the situation might be reviewed when financial regulation was no longer in crisis mode. More pointedly, Terry McCrann suggested that reform of the financial system is unnecessary because the global financial crisis hasn't affected us. In his words, *‘Not many dead or even injured in Australia. From any systemic fault, that’s to say.’*

It's true that Australia has come through the crisis without major financial disasters. But it is absurd to suggest that this fortunate outcome implies that our existing system has worked as planned. Decisions such as giving an unlimited guarantee of bank deposits and the government's establishment of the Ozcar scheme, in response to the anticipated withdrawal from the Australian market of the major providers of car loans, were taken on an emergency basis, justified only by the belief that the alternative would be disastrous.

The most fundamental criticism of the status quo has come from Ian Harper, the former Reserve Bank Economist who played the dominant intellectual role

on the Wallis Committee. Harper is a strong supporter of free markets, and an economist of unquestioned intellectual integrity, not prone to blow with the wind of fashion. Harper has observed that the entire intellectual framework of the 1997 inquiry had been rendered redundant by the financial crisis.

“Our framework was essentially the efficient markets theory,” he said. “We thought we had found the ultimate fixed point in the universe, namely the market price, and so we built on top of that the regulatory framework. But then there was no market price. The evolution we expected has stopped, reversed and gone the other way.”

THE REVERSAL OF FINANCIAL GLOBALISATION

One of the most striking developments of the late 20th Century was the explosion in the volume, speed and complexity of international financial transactions, and the resulting breakdown of effective regulatory control over the global financial system. The speed with which this process has gone into reverse since the onset of the financial crisis has been equally striking.

Transactions in the global foreign exchange market, once confined to financing trade flows, peaked at around \$4 trillion per day in mid-2008. At that pace, two days of foreign exchange trading would be sufficient to finance an entire year's trade flows. The growth of private credit reached an annualised rate of \$10 trillion at the same time.

The market collapsed in the crisis of late 2008. According to the International Monetary Fund (2009), private sector credit growth fell by 90 per cent, and *‘Emerging bond markets virtually shut down for a period of time in the fourth quarter’*.

Although rescue measures by governments have restored some credit flows, the long term tendency is towards a reversal of financial globalisation. Banks that have been bailed out or nationalised are being encouraged, and sometimes forced, to sell off overseas assets and focus on their home market. Public policy is simply reinforcing the pressures of the market.

In one of many similar examples, the Rudd-Gillard Government was forced to intervene in the market for motor vehicle finance and, on a larger scale, in the commercial property finance market, in response to the withdrawal of foreign lenders from the market.

The European crisis, driven primarily by excessive lending by French and German banks will entail a further retrenchment, and the strengthening of financial controls applied at the level of the eurozone as a whole.

By the time financial markets have been stabilised, the global financial system that prevailed before the GFC will have contracted rapidly, with many markets and institutions disappearing altogether. The challenge facing governments and regulators will be to construct a new financial system and a regulatory architecture strong enough to prevent a recurrence of the bubble and meltdown that has largely destroyed the existing unregulated system.

An important element of any reform should be a tax on financial transactions, low enough that it does not interfere with ordinary borrowing and lending, but high enough to ensure that the massive short-term speculation that still dominates financial markets is ended once and for all. Even at very low rates of taxation (say 0.1 per cent), it would be impossible to maintain financial markets with turnover in the hundreds of trillions, as at present. And even with a drastically reduced volume of financial transactions, the effective tax on financial sector operations would be large enough to offset the cost to the public of the guarantees required by the system.

THE FIVE PILLARS OF FINANCIAL STABILITY

The essential features of a system of financial regulation to support market stability and prevent another meltdown are:

- Linking and integrating national financial systems to produce a sustainable international financial architecture
- Decoupling exchange rates from the vicissitudes of financial markets – the Tobin tax
- Guaranteeing and regulating the banks
- Regulating innovation
- An effective ratings system

A NEW FINANCIAL ARCHITECTURE

The idea of a 'global financial architecture' is both misleading and unattainable. The keystone for any financial architecture is the institution that acts as lender of last resort for others. This function is, and is likely to remain, one undertaken by national governments and their central banks. It follows that there can be no global financial architecture. Rather national systems of financial regulation must be linked and integrated to produce a sustainable international financial architecture.

To achieve this, there must be no 'offshore' financial system, outside the agreements that govern the international financial architecture, but nevertheless allowed to transact with institutions inside the system. This issue has already arisen in relation to international tax avoidance and evasion, and will arise in an even more acute form in relation to the Tobin tax, discussed below. Fortunately, the OECD has already developed a strategy to address tax avoidance that will serve as a model for financial regulation.

The OECD prepared an internationally agreed tax standard allowing countries to choose their own tax rates, but requiring exchange of information to prevent avoidance and evasion. Jurisdictions which implemented the standard were placed on a white list, while those that refused were placed on a black list. Countries that promised to implement the standard but had not yet done so were placed on a grey list. Blacklisted jurisdictions were threatened with sanctions, largely unspecified, but sufficiently effective that, by October 2009, no jurisdictions surveyed by the OECD global forum remained on the blacklist.

The tax standard is inadequate in many respects, and open to the evasive tactics for which tax havens are famous. But it seems clear that the standard will be tightened progressively, and that no jurisdiction will be willing to risk the consequences of refusal to implement them.

The Financial Stability Board, established as part of the response to the global financial crisis has already indicated that the tax haven model will be applied to 'regulatory havens' offering lax financial regulation. As with taxation, the process will undoubtedly be slow, but the mechanisms are in place to ensure that evasion of financial regulation through the use of offshore transactions can be prevented.

The Tobin tax

The long-advocated and long-resisted idea of a small tax on financial transactions, commonly called a Tobin tax, is the most promising option for ensuring that exchange rate movements reflect the economic fundamentals of trade and long-term capital flows, rather than the vicissitudes of financial markets.

A tax at a rate of 0.1 per cent would be insignificant in relation to the transaction costs associated with international trade or long-term investments. On the other hand, daily transactions of \$3 trillion would yield revenue of \$30 billion per day, or nearly \$1 trillion per year. Since this amount exceeds the total profits of the financial sector (profits that are likely to be much smaller in future) an effective Tobin tax would imply a drastic reduction in the volume of short-term financial flows. It follows that the revenue from a Tobin tax, while significant, would not be sufficient to replace the main existing sources of taxation, such as income tax.

The large literature on Tobin taxes has identified two significant problems with the simple proposal for a tax on international financial transactions.

First, it is possible to replicate spot transactions on foreign exchange markets with combinations of forward, futures and swap transactions. To make a Tobin tax effective, it would have to be applied to all financial transactions, including domestic transactions. During the bubble era, when the few remaining taxes on domestic financial transactions were being scrapped to facilitate the growth of the financial sector, this was seen as a fatal objection. It has become apparent, however, that the destabilising effects of explosive growth in the volume of financial transactions are much the same, whether the transactions are domestic or international.

The fact that a Tobin tax on international financial transactions would be integrated with taxes on domestic transactions suggests that, in all probability, revenue would be collected and retained by national governments. However, the suggestion that at least some of the revenue should be used to fund global projects, such as the international development goals of UNCTAD, remains worthy of consideration.

The second problem is that the tax would require global co-operation, since otherwise financial market activity would migrate to jurisdictions that did not apply the tax. Although this will remain a problem in the post-crisis world, it

is likely to be much less severe than indicated by earlier discussions, because of the much smaller number of separate jurisdictions that would need to agree, following the emergence of the euro. It seems inevitable that most remaining European currencies, with the possible exception of the British pound, will disappear in the wake of the crisis, and that a Europe-wide regulatory system will emerge.

To address the problem of 'offshore' financial centres, such as Caribbean island states, a Tobin tax on transactions among complying jurisdictions may have to be supplemented by a punitive tax, at a rate of, say 10 per cent, on transactions with non-compliant jurisdictions. This would effectively ensure that non-compliant jurisdictions were excluded from global financial markets, though the penalty would be modest as regards trade and long-term investment flows.

REGULATING THE BANKS

Guarantees, regulation or narrow banking

The core of financial regulation is the existence of a (partial or total) guarantee that bank depositors who exercise ordinary prudence will not lose their money. Until October 2008, the guarantee system in Australia was carefully ambiguous. Governments and the Reserve Bank implicitly assured both the general public and wholesale lenders that our major banks are completely safe, while simultaneously denying that their liabilities were guaranteed. As was both predictable and predicted, the contradictions in this stance were exposed the first time the system faced a serious crisis. The result was the unlimited guarantee we have now.

We must now consider whether to maintain, modify or withdraw the guarantee. Whatever we do, the crucial issue that has not been faced so far is that publicly-guaranteed institutions require much closer regulation than is consistent with policies of financial deregulation.

So, there are three policy options available:

1. The first is the maintenance of the existing guarantee, and a comprehensive re-regulation of the system. This would not mean a return to the system that prevailed before the 1970s (no such return is ever possible), but it would require direct control over the allowable range of products, the setting of interest rates, fees and charges and the allocation of lending between sectors of the economy.

2. Current government rhetoric suggests the desire to return to something like the old system, with deposit guarantees being withdrawn once the crisis is over. But clearly, we cannot go back to the old ambiguity. If the guarantee is withdrawn, this will be a clear statement to depositors that they must make their own judgements about the safety of their money. It was in this context that the idea of a publicly-owned and publicly guaranteed savings bank was suggested.
3. The third option, in some ways a compromise, is that of narrow banking, in which publicly guaranteed banks stick to a tightly regulated range of well understood activities. This allows for a completely separate set of financial institutions, of which stock markets are the exemplar, where government guarantees are ruled out in advance. These would offer higher returns but no possibility of transferring risk to the public. This is my preferred option.

Narrow banking

Post-crisis financial regulation should begin with a clearly defined set of institutions (such as banks and insurance companies) offering a set of well-tested financial instruments with explicit public guarantees for clients, and a public guarantee of solvency, with nationalisation as a last-resort option. Financial innovations must be treated with caution, and allowed only on the basis of a clear understanding of their effects on systemic risk.

In this context, it is crucial to maintain sharp boundaries between publicly guaranteed institutions and unprotected financial institutions such as hedge funds, finance companies, stockbroking firms and mutual funds. Institutions in the latter category must not be allowed to present a threat of systemic failure that might precipitate a public sector rescue, whether direct (as in the recent crisis) or indirect (as in the 1998 bailout of Long Term Capital Management). A number of measures are required to ensure this:

- Ownership links between protected and unprotected financial institutions must be absolutely prohibited, to avoid the risk that failure of an unregulated subsidiary will necessitate a rescue of the parent, or that an unregulated parent could seek to expose a bank subsidiary to excessive risk. Long before the current crisis, these dangers were illustrated by Australian experience with bank-owned finance companies, most notably the rescue, by the Reserve Bank, of the Bank of Adelaide in the 1970s.

- Banks should not market unregulated financial products such as share investments and hedge funds.
- The provision of bank credit to unregulated financial enterprises should be limited to levels that ensure that even large-scale failure in this sector cannot threaten the solvency of the regulated system.

In the resulting system of 'narrow banking', the financial sector would become, in effect, an infrastructure service, like electricity or telecommunications. While the provision of financial services might be undertaken by either public or private enterprises, governments would accept a clear responsibility for the stability of the financial infrastructure.

Financial innovation

The prevailing rule has been to allow, and indeed encourage, financial innovations unless they can be shown to represent a threat to financial stability. With an unlimited public guarantee for the liabilities of large financial institutions, this rule is a guaranteed, and proven, recipe for disaster, offering huge rewards to any innovation that increases both risks (ultimately borne by the public) and returns (captured by the innovators). There must be a reversal of the burden of proof in relation to financial innovation.

The process of financial innovation, involving either the creation of new financial instruments or the design of new financial strategies for firms (often termed 'financial engineering') was a central feature of the era of market liberalism. The growth of finance has been almost unstoppable. Seemingly major financial crises like the stock market crash of 1987 or the NASDAQ crash of 2000 stimulated the development of yet more innovative responses. Even the exposure of spectacular fraud at the Enron Corporation, which had been nominated by Fortune magazine as 'America's most innovative' for six years in succession, did little to dent faith in the desirability of innovation.

It is now clear that unrestricted financial innovation played a major role in the advent of financial crisis, by facilitating the growth of unsound lending and by undermining systems of regulation. There is an inherent inconsistency between unrestricted financial innovation and a regulatory system aimed at preventing the failure of financial systems or at insuring market participants against such failures. Guarantees create 'moral hazard' by allowing financial institutions to capture the benefits of risky investments, while shifting some or all of the losses to government-backed insurance pools.

Moral hazard can only be offset by the design of regulatory mechanisms that discourage excessive risk-taking. But, as the literature on mechanism design has shown, the effectiveness of such mechanisms depends on the existence of stable relationships between the observable variables that are the subject of regulation and the risk allocation that generates them. Financial innovation changes the relationship. In the presence of moral hazard, therefore, there is an incentive to introduce innovations that increase the underlying level of risk while leaving regulatory measures of risk unchanged.

It follows that the only sustainable approach to financial innovation is one in which proposed innovations are introduced only after the implementation of necessary changes to regulatory requirements and risk measures. If reliable risk measures cannot be computed, the associated innovations should not be permitted.

A public ratings system: capital adequacy, transparency and risk assessment

Another important regulatory adjustment will be the end of the system by which prudential regulation has been, in effect, outsourced to ratings agencies such as Standard & Poor's and Moody's. Agency ratings have been enshrined in regulation, for example through official investment guidelines that require regulated entities to invest in assets with a high rating (AAA in some cases, investment grade in others) or provide those responsible for making bad investment decisions with a 'safe harbour' against claims of negligence if the assets in question carried a high rating. For these purposes at least, an international, publicly-backed non-profit system of assessing and rating investments is required.

CONCLUSION

Australia suffered only modest and indirect effects from the first round of the Global Financial Crisis. In part, this favorable outcome reflects good management, but good luck has been at least as important. Trusting to luck that we will be similarly favoured in the future would be highly unwise.

The temptation to put off until calmer times questions about our financial vulnerability has proved irresistible so far. Looking at the current global scene, however, it seems unlikely that economic calm will return any time soon. A careful examination of the vulnerabilities in our financial system will be an urgent task for the newly-elected Gillard minority Government.

“By making public spending simpler, more direct and more accountable there is significant scope for public savings.”

Getting value for public money

By Ben Spies-Butcher & Adam Stebbing

INTRODUCTION

EACH ELECTION YEAR both sides of politics make their claims for economic responsibility. In 2010 the Coalition focused on government debt, while Labor placed a self-imposed limit on new public spending. Many people may not realise that Australia's debt is already very low by international standards, and our taxes are below those in most rich countries.

Despite this, there is still plenty of room to improve the federal government's financial position. But we heard little this election about the most wasteful and inequitable government spending. We could be saving billions each year, while providing greater support to those on low incomes and reducing the cost of living – but to do so will require considerable political courage.

In this chapter we examine three of the most important areas of social spending – retirement incomes, housing and childcare. We also put forward some general rules for getting better value for public money: increasing the accountability of public spending; making funding direct to service providers; and simplifying consumer choice.

THE STORY SO FAR

Getting value for our tax dollars is important to all citizens. But public debate on this issue is often based on ideology and double-speak. While governments from both sides of politics talk of cutting spending, they have consistently increased backdoor tax rebates and loopholes that give most to rich. In housing, superannuation and elsewhere our governments now spend as much through complex and unfair tax schemes as they do in direct support through more targeted spending initiatives.

While the Howard Government claimed fiscal responsibility, it consistently increased spending in some of the least efficient, but most electorally beneficial ways. Free market think tanks called this 'big government conservatism', as spending on the baby bonus, private schools, private health insurance and families all increased in ways that maximised the cash paid to the (often well off) individual, but minimised the level of services delivered per government dollar.

Labor has slowly begun to wind back some of the worst excesses. But in many areas it has continued to build on dodgy foundations. It has added to the

inefficient childcare rebate, rather than taking the opportunity for genuine reform. It promises to extend superannuation in a way that guarantees even more public support for those on the highest incomes, rather than reforming the system to genuinely support low and middle income workers. And it has left in place tens of billions in tax concessions that actively undermine broader economic objectives in housing policy. By making public spending simpler, more direct and more accountable there is significant scope for savings.

AREAS NEEDING REFORM

1. PENSIONS AND RETIREMENT INCOMES

The retirement incomes system has particularly wide ramifications for the value we get from our public money because the government offers considerable financial support to both its major arms – the aged pension and superannuation. While Australia is well positioned to deal with the effects of an ageing population, it does increase the urgency of ensuring that our policy settings are both equitable and efficient. The government has made some progress on retirement incomes policy, but much more remains to be done.

Current government policy

Age pension

The age pension is the major retirement income policy, providing at least some assistance to 78 per cent of the population aged 65 years and over in 2008. Funded out of tax revenue, the pension cost around \$27 billion in 2008-09. Long overdue, the government increased the weekly full rate of the age pension by \$32.49 for singles and \$10.14 for couples. It also simplified pension allowances, by incorporating the GST pension supplement, as well as the pharmaceutical, utilities and telephone allowances into a sole pension supplement.

The government has placed additional pressures on workers, particularly those who undertake manual work, by increasing the qualifying age for the pension to 67 years by 2020 a measure that is difficult to justify on financial or equity grounds.

Superannuation

Superannuation provides a secondary source of retirement income to more than 90 per cent of employees. It is supported by the government through the

Superannuation Guarantee (SG) that directs nine per cent of wages into super and by generous but extremely unfair tax concessions that reduced tax revenue by \$24 billion in 2008-09 – costing almost as much as the age pension.

These concessions reduce the fiscal sustainability of the Budget. They cost the Budget two per cent of GDP each year, but are expected to reduce spending on the pension by only 0.2 per cent of GDP in 2050 – meaning we spend \$1 of public money on super for every 10c we expect to save on the pension.

The government has taken small, but important, steps to reduce the inequities of the super tax concessions: it reduced the annual contribution limits that the tax concession applies to \$25,000 for those younger than 50 years and \$50,000 for those who are older; and it has improved their overall equity with its proposed 15 per cent rebate (up to a ceiling of \$500) for those with annual incomes under \$37,000. And, improving fairness and simplicity, the government also banned commissions for financial advisors and required funds to provide a low-cost default super option to consumers.

However, the government also reduced the benefits that low-income earners receive from the co-contribution super scheme, lowering the matching rate from 150 per cent to 100 per cent from 2009 to 2012. And, the proposal to increase the Superannuation Guarantee to 12 per cent creates greater inequity because it will amplify the problems already present in concessional tax arrangements. Thus, it will effectively increase support to high-income earners.

The Inequity of the Tax Concession for Superannuation

Contributions

In its reply to the Henry Tax Review, the government announced that it would increase the Superannuation Guarantee from nine to 12 per cent of wages and introduce a 15 per cent rebate for the super contributions of those earning less than \$37,000 p.a. Table 1 compares the current tax arrangements with those proposed by the government.

Table 1. The Current Tax Concession for Superannuation Guarantee Contributions and the Rudd-Gillard Government's Proposal

Income (\$)	CURRENT CONCESSION		PROPOSED CONCESSION		
	Marginal Tax Rate	Tax Discount (%)	Tax Discount (\$)	Tax Discount (%)	Tax Discount (\$)
35 000	15	0	0	15	472
60 000	30	15	810	15	1 080
100 000	38	23	2 070	23	2 760
250 000	45	30	6 750	30	9 000
500 000	45	30	13 500	30	18 000

Under the current tax arrangements, individuals pay a flat rate 15 per cent tax on their super contributions; tax payers earning \$35,000 p.a. receive no benefit from this concession, while those earning \$250,000 p.a. receive \$6,750 per annum of government assistance. This concession is inequitable in both monetary and proportional terms. Although they provide some benefit to lower income-earners, the government's proposals maintain the inequity of the existing tax concession and, by increasing the Superannuation Guarantee to 12 per cent, boost the monetary benefit received by those on the highest incomes.

Proposed reforms – Make super fair

Target assistance

The super tax concessions' fairness could be enhanced by heeding advice that the Rudd-Gillard Government received from a range of sources, including the proposals of the Henry Review and our paper for the Centre for Policy Development found in *Table 2*. While the Henry Review recommended a flat rate 20 per cent tax discount for super contributions up to annual limits, our Centre for Policy Development report proposed a 20 per cent rebate for those earning up to \$80,000, with a taper that reduced the rate of the rebate by one per cent for each additional \$1,000 of income. Both of these proposals, particularly that of the CPD report, would improve the equity of the super tax concessions.

Table 2. Proposals for Reforming the Tax Concession for Super Contributions

Income (\$)	Marginal Tax Rate	HENRY TAX REVIEW		CPD PROPOSAL	
		Tax Discount (%)	Tax Discount (\$)	Tax Discount (%)	Tax Discount (\$)
35 000	15	20	630	20	630
60 000	30	20	1 080	20	1 080
100 000	38	20	1 800	0	0
250 000	45	20	4 500	0	0
500 000	45	20	9 000	0	0

Improving accountability

Support for super avoids many budgetary oversights and long-term projections, such as the Intergenerational Reports, making it harder to assess the value the public is getting for its money. Concessions given to superannuation should come under the same scrutiny as public spending on the pension.

Using savings for nation building

One aim of super is to enhance national savings. If that is the goal and tens of billions of public dollars are spent on the effort, it is reasonable that a more direct link be made by requiring super funds to make a small investment in government bonds to make funds more available for public infrastructure and nation building.

Making super simple

A key problem with super for workers is its complexity. Creating a default public super fund would help people manage choice, particularly for young and casual workers who move between jobs and industries.

2. HOUSING

Housing policy has one of the largest impacts on the federal budget of any social service. However, its impact is often overlooked because the bulk of support comes through concessional tax arrangements, similar to those

supporting superannuation. In the past support for both public housing and home ownership have broadly met the needs of the community. But gradually spending on public and affordable housing has decreased while support for purchase by owners and investors has increased. The result is rising house prices, leaving many behind.

There are now 105,000 homeless in Australia. Another 445,000 low-income families are in housing stress in the private rental market. High house prices and rising interest rates mean hundreds of thousands of low-income owner-occupiers are also in housing stress.

Ironically, it now appears that government spending on programs meant to improve affordability (like the First Home Owners Grant) is actually exacerbating the problem. Rather than increasing the supply of housing as population increases, these types of policies tend to increase the price of existing housing. The limitations of current housing policy are increasingly accepted across the economic community, but there are significant political obstacles to reform. The first-term Labor Government took some steps in the right direction.

Current government policy

Supporting renters

A long-term lack of funding for social housing has meant increasing need to subsidise private renters. These subsidies now cost \$2.6 billion per year. There is no direct means test – renters who qualify for other government payments can also get rent allowance – but this means that some low-income earners fall through the cracks. The level of assistance also does not account for higher rents in cities like Sydney and Melbourne.

The stimulus package began to address this by investing \$6.6 billion to building 20,000 new units of social and defence housing. This is a significant commitment, but still only a small step towards reducing the 230,000 waiting list for public housing. The National Rental Affordability Scheme also offers greater rental stock by encouraging institutional investors like super funds to build affordable housing.

Helping first home buyers

Both the past Coalition and the Rudd-Gillard Government introduced new schemes to support first home buyers. Initially these were poorly targeted, giving most assistance to the wealthiest. Labor has made some modest improvements. It amended its own First Home Savers Scheme, and the First Home Owners Grant, to better target these payments. Even so, these programs do relatively little to benefit low-income earners.

The extra support provided by the government to home buyers has been far from efficient. While incentives for new housing can stimulate building, the grant also goes to those buying existing housing, which tends to simply inflate prices. Indeed this appears to have been the intended effect of the stimulus measures, encouraging first home buyers into the market to stabilise falling house prices. However, it has left many with large mortgages as interest rates now increase, prices rise and investors return to crowd out new entrants.

Billions in tax concessions

The budget provides \$40 billion a year to existing home owners in concessional tax treatment, primarily through the exemption on capital gains. This encourages home owners to spend more on renovation than they otherwise might and to retain larger houses than they need – pushing up house prices for everyone. The government then spends an additional \$5 billion on negative gearing, and billions more in the concessional treatment of capital gains (although this is not properly reported), for investors. Negative gearing has been shown to push up house prices for all.

So the government is now backing every buyer at an auction, funnelling money to new home buyers, existing owner-occupiers and investors, spending tens of billions each year and yet the effect of all this is basically the opposite of the stated goal of improving housing affordability. All of these measures have a fatal weakness: they compete against other government schemes and give even more to the very buyers that new entrants are competing against.

There is increasing recognition that this situation is unsustainable. A 2004 Productivity Commission report identified the interaction of negative gearing and the capital gains tax concessions as potentially promoting a boom-bust cycle in the property market. A number of economists have identified the unsustainable nature of household debt, almost all of which is housing debt

generated from rising property prices. And the Henry Review recommended wide-ranging reforms to reduce the preferential treatment of housing in the tax system to allow investment to flow more evenly through the economy.

Proposed reforms

Addressing supply

Addressing housing affordability requires an increase in supply. A series of reports have shown that the most cost-effective way to do this is through direct government investment in social housing (see Industry Commission 1993). The stimulus has been a good first step, but more needs to be done. Likewise, any assistance given to owners or investors needs to be targeted to those building or buying new stock to reduce the inflationary effects of government assistance.

Targeting assistance

In the short term support for the private rental market must remain. But this assistance should be better targeted to those most in need. This requires changing the means test for rental assistance, and restricting tax concessions to landlords who provide affordable housing to low-income tenants.

From left field: So crazy it just might work...

The Henry Review proposed a more radical idea, including the family home in the means test for the aged pension to reduce incentives to retain more expensive housing in older age. This proved politically unpalatable, but a similar objective can be achieved through more creative means. Abolishing the aged pension means test would also remove the bias. While this would be inequitable when taken by itself, it could be funded by removing tax concessions for high-income earners investing in superannuation. The net effect would be largely revenue neutral, have no negative effect on equity, provide greater accountability and would make housing more affordable.

3. CHILDCARE

The main challenge to childcare in Australia comes from individual public subsidies for the purchase of private services delivered by the for-profit and non-government sectors. In pitching its message at 'working families' during the 2007 federal election campaign, Labor identified unaffordable childcare as one of several pressures undermining family 'work-life balance' that the

Howard government had failed to address and that it could handle better. So, have the government's childcare policies improved affordability for working families?

Again, the answer is mixed. In contrast to its predecessor, the Labor government has promoted universal access to childcare and envisages it as part of a longer-term strategy that includes increasing labour force participation and productivity, social inclusion and the 'education revolution' Whilst the government has taken steps in the right direction, other policy decisions have undermined both equity and efficiency.

Current government policy

Subsidising child care

The government supports private childcare services through two subsidies for consumers, which largely leaves them to co-ordinate activity themselves through market mechanisms in the private sector.

The Child Care Benefit (CCB) is a means tested cash benefit available to those who consume up to 50 hours of services from private providers; each week, it provides up to \$30.10 for registered care or \$180 for approved care per child. The Child Care Rebate (CCR) provides a 50 per cent flat rate rebate to consumers for their out-of-pocket expenses on approved childcare services up to \$7,778 per child each year.

The CCB provides most assistance to those on lower incomes, whilst the CCR benefits almost all consumers of childcare, particularly higher income earners who have greater purchasing power and thus larger out-of-pocket expenses.

Building new centres

An immediate challenge for parents is a lack of quality, affordable childcare. The government has committed to building an additional 38 childcare centres but this is a far cry from the 260 it promised at the 2007 election. When ABC Learning collapsed – the major private provider that accounted for 25 per cent of childcare places nationwide – the government injected \$58 million to support the continuation of childcare services until all but 55 centres (of over 1,000) were transferred to new operators. But despite the collapse of ABC

Learning, the government has yet to impose accreditation or other regulatory controls on the sector.

Problems with current policy

Failure to regulate

The collapse of ABC Learning has, as Cox notes, provided the government with an opening to review the whole system and impose further regulations on the childcare sector. The government has also ‘avoided at all costs’ an active involvement in childcare provision, which would have provided a direct means to increase competition in the sector and expand access.

Runaway prices

Current policy gives parents more money to spend on childcare without sufficiently increasing the supply of childcare places. This tends to push up the price of childcare and reduce value for money.

By raising the CCR to 50 per cent (from 30 per cent) up to a ceiling of \$15,000 in 2008, the government has further raised the purchasing power of childcare consumers without adequately addressing supply. Logically enough, this feeds the inflation in childcare fees that reduce the affordability of care, although the impact may be unwound to some extent by the decision to wind back the ceiling of the CCR to \$7 778 per child each year in this year’s Budget.

Moreover, by favouring the CCR over the CCB, the government has expanded the benefits received by higher income-earners at the expense of lower income-earners. In short, the Labor government’s policies have done little to alter the market environment of childcare or extend universal access.

Proposed reforms

Direct funding

Funding needs to be direct. If supply is the issue, than building centres and funding them is the solution; using mechanisms like rebates and subsidies is less direct and less efficient.

Regulation of the sector

Regulation which makes it easy for parents to choose quality care, rather than maximising inefficient and confusing choice in an artificial market.

Table 3. Redistributive Implications of CCB and CCR

Family Adjusted Taxable Income (\$)	CCB Received Per week (\$)	Out of Pocket Amount (\$)	CCR received Per Week (\$)
30 000	114.00	56.00	16.80
50 000	112.00	88.00	26.40
70 000	73.54	126.46	37.94
100 000	24.15	52.76	52.76

* Calculations assume one child in Long Day Care (50 hours) costing \$200 per week. CCB rates as of 2005.

AN AGENDA FOR REFORM

There are a few simple principles that can help to make public spending more efficient and equitable. These principles underpin the reforms proposed in the three areas we have discussed, but also apply more broadly.

1. Accountability

The first step to ensure that public programs are sustainable and offer value for money is to find out exactly what things cost. That might sound straightforward, but there are two accounting tricks that make it much more difficult. First, governments can reduce the cost to the Budget by restructuring a policy as a tax concession rather than a spending measure. The effect on the economy and the budget bottom line is the same, but it doesn't show up on the official statistics. Second, governments can cut spending on services, passing increased costs on to individuals. Instead of paying through our taxes, we pay (often even more) in higher charges, but it looks like the government is being 'responsible'.

Recognising the need for greater accountability, the Henry Tax Review proposed that the government release a 'Tax and Transfer Analysis Statement' each five years to report on the cost, efficiency and distributive effects of the tax and transfer system, including tax expenditures. This recommendation

should be implemented. It would shine light on neglected public programs and hopefully inspire further research and public debate.

2. Make funding direct

The next step is for governments to more clearly match their funding models to what they actually want to achieve. Too often funding is designed to have the maximum short-term electoral effect, rather than the maximum effect on welfare and service provision. Research suggests that reducing the distance between the government as funder and the organisation delivering the service contains costs.

The most obvious example here is the private health insurance rebate. The policy aims to encourage people to use private hospitals. The goal is controversial, but even on its own terms the policy fails. Rather than funding private hospitals the government provides a subsidy to individuals, to purchase insurance, which then covers hospital stays. That is a complex and convoluted way to subsidise private hospitals, and the result is that only half of the money ever ends up supporting private hospital beds. Indeed, if the government decided to simply provide a subsidy directly to the hospital for each service it delivered, the same effect could be achieved while saving more than \$2 billion a year.

By funding insurance rather than hospitals the current scheme also subsidises gym memberships, dental work and administration costs that are not the main focus of the policy. By funding individuals, these subsidies tend to increase inflationary pressure and reduce the ability of governments to ensure good value for money. Often direct provision (as with public hospitals) is the most efficient alternative. But there are many ways of supporting greater choice while also reducing costs by funding services, not individuals.

3. Let people choose *not* to choose

People do not always want more choice. Recent developments in economics have shown that people's ability and desire to choose is not infinite. Often having complex choices means that people simply fail to act, or make decisions they later regret. Competition and choice can be powerful forces to improve efficiency – but increased choice often just leads to confusion and to industries taking advantage of governments and consumers. The solution is to give people manageable choices, and to introduce public default options to allow people to opt-out.

THANKS TO OUR SUPPORTERS

BECHER FOUNDATION
Supporting Social Innovation



Christian Kearney

Julian Knights

Christine Paterson

The Centre for Policy Development and the editors would also like to thank Zoe Anderson, Kevin Bathman, Fiona Cameron, Christopher Carlisle, Kate Miller and Marisa Wikramanayake for their hard work and skill which made this project possible.

“From climate change and sustainability to proper governance and strengthening our democracy, the ideas in *More Than Luck* come at the right time. And we need politicians who are willing to take them seriously. If we cannot think bigger than tweets, we are in trouble. If our politicians won’t think bigger than sound-bites, we are lost.”

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“Politics is not a horse race, but if you’re anything like me and you’re only just recovering from the “mule-trading” vibe of Election 2010, *More Than Luck* is a brilliant place to restore your faith. What sweet relief to find a collection of words, sentences, pages, chapters, a whole book that reminds us of the possibility these current times offer us.”

– CLARE BOWDITCH, MUSICIAN

More Than Luck: IDEAS AUSTRALIA NEEDS NOW is both a collection of ideas for citizens who want real change and a to-do list for politicians looking to base public policies on the kind of future Australians really want.

In this collection of essays, CPD fellows and thinkers show what’s needed to share this country’s good luck amongst all Australians, now and in the future. They examine where we are now and where we need to go if we are to move beyond the stasis that has settled over government and opposition in Australia. The result is a mix of easy wins that are ready to be implemented and some big, bold nation building ideas that may require a bit more backbone on the part of our political leaders.

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ISBN: 978-0-9808356-0-1

Centre for Policy Development 2010

