

## **SUBMISSION ON THE TREASURY PAPER ENTITLED AUSTRALIA'S FUTURE TAX SYSTEM: ARCHITECTURE OF AUSTRALIA'S TAX AND TRANSFER SYSTEM (2008)**

This submission addresses the Treasury questions below. Related information is attached.

### **What major challenges facing Australia need to be addressed through the tax-transfer system?**

The first major challenge is that the Treasury report on the architecture of Australia's Future Tax System presents a bizarre, apparently irrational and incomprehensible state of government tax affairs, which seems more like a huge pile of rubble than architecture. No wonder that 'income tax law'(p.305) has grown from 88 pages in 1936 to 526 pages in 1975 to 5743 pages in 2008. There are 125 taxes levied by the Australian government, 25 levied by the states and 1 by local government. The top four money spinners at the national level are personal tax, company tax, goods and services tax, fuel tax, taxes on superannuation and tobacco. The states collect payroll tax, conveyance, stamp and other land related tax. Local government collects rates. Australia and NZ are the only countries that do not levy a social security tax and do not have a dividend imputation system (p.xii). Why is it so? I have no idea and Treasury provides few hints. I guess it is related to the grooming of superannuation as a new Australian magic pudding, which should now be treated accordingly. Its effective performance depends on transparency. Given the way men's business normally works, this should be extremely challenging.

However, no challenges facing Australia can be effectively addressed through the tax-transfer system, until a clear and rational analysis and policy direction in relation to the current tax system are obtained, in order to meet the economic, social and environmental goals of national triple bottom line accounting. Australia is now ideally committed nationally and internationally to this, as a result of its earlier commitments to sustainable development. (See attached and related articles on governance and carbon trading.)

Another major challenge for Australia will be the effect of introducing the government's proposed carbon pollution reduction scheme. Discussion of taxation must take account of this not merely in passing, but in a properly integrated regional analysis related to the achievement of sustainable development goals. The recent government green paper claims its proposed arrangements are the best way to reduce greenhouse gas emissions and carbon pollution, while minimizing the impact on Australian businesses and households. Currently there is some doubt about whether it is a trading system, let alone whether it will achieve its objectives. Mark Latham's assessment is that 'this is not a carbon trading scheme but a new tax-transfer system, shuffling money around the economy without significantly increasing the real cost of carbon'(Australian Financial Review, 21.8.08, p.78). I can see his point. In the attached paper, however, I argue that the government's proposed carbon trading scheme will not achieve its objective and that carbon trading is instead ideally conceptualized and approached in related industry and regional contexts, in which the carbon permit is viewed as an insurance related financial

instrument – a premium, which is owned and pooled by industry and government. As in superannuation, the funds are ideally invested competitively, in broadly planned regional initiatives to reduce carbon pollution and its effects, and also to achieve triple bottom line accounting and all related sustainable development goals more broadly. Taxation is ideally considered in related regional production, consumption and investment contexts.

**What features should the system have in order to respond to those challenges?**

**What are the problems with the current systems?**

**What reforms do we need to address those problems?**

Perfect information is necessary for perfect competition so transparency is always vital. Current taxes should be ruthlessly culled and the aims of remaining taxes made clear, so their performance can be judged. Planning reform to achieve sustainable development is ideally led in the primary sector because air, land and water are the foundation of all life currently and in future. National taxation is ideally first considered in related primary production, consumption and investment contexts. Broadly recognized industry and environment categories which are applied consistently are necessary for scientific and efficient approaches to regional management of the environment. The analysis and management of taxation is ideally conducted in related institutional contexts, coordinated with the institutional economic approaches currently taken in many Productivity Commission (PC) and related inquiries. The Treasury approach to tax is far from this.

The green paper on the proposed carbon pollution reduction scheme suggested adopting Australian and New Zealand Standard Industrial Classifications (ANZSIC), but at other times builds uncritically on outdated law. I agreed with its ANZSIC recommendation and also argued that the comfort of Australians depends particularly on a variety of forms of mining, which may also produce major pollution. Better understanding of key production chains and their ideal links with surrounding communities and environments is vitally necessary to achieve the goals of sustainable development effectively and fairly. Taxation is ideally addressed in context. However, the Treasury paper on Australia's future tax system does not recognise ANZSIC classifications. It discusses the treatment of 'natural resources assets' by first claiming that 'the Australian natural resources sector is made up of two components – the mining and petroleum sector and other natural resources such as forestry and fisheries'(p.270). It states that these natural resources are owned by all Australians, with legal ownership vested through government rights over these assets. This not only appears to ignore agriculture but also suggests that farmers do not own land. This is not a basis for an effective analysis of taxation and its future.

I broadly agree with the institutionally based analysis and Australian policy development direction usually taken by the Productivity Commission (PC) and think Treasury should take a similarly coordinated regional industry and community approach to analysis of all taxation, to achieve Australia's economic, social and environmental goals. For example, the PC review of Australia's national consumer policy framework (2008) recommended the COAG instigate and oversee a review and reform program for industry-specific consumer regulation. NSW Fair Trading Minister, Linda Burney was later reported as saying that the PC proposes 'measuring each unfair contract claim to an overall public

benefit test'. She and ACCI's Director of Industry Policy and Economics, Greg Evans were also reported as being in agreement with this approach (AFR, 18.8.08, p. 6). From regional industry and community perspectives, the tests of the public interest, like those of government policy, are also related to Australian sustainable development goals, which are economic, social and environmental. Taxation must be analysed in related regional industry, community and environment contexts. Tax lawyers and related economists are powerful feudal relics who drain the government coffers but cannot do it.

The treasury paper appears to reject any scientific analysis of tax which is based on conceptual models of production, consumption and related investment goals and outcomes. Because the Treasury Paper does not present the tax system using such an institutional analysis, it can only produce rubble rather than architecture. The vital relationships ideally envisaged between individuals, companies and government are completely obscured in the Treasury account. The concept of a tax-transfer system, as applied in the Treasury paper, instead treats taxpayers as if all are engaged in ideal trading relationships with each other, via government receipts and disbursements. Yet Treasury states that a core characteristic of a tax is that there is no clear and direct link between the payment of the tax and the provision of goods and services to the taxpayer (p.11). This also suggests that it is not logical to address the study of taxation as if there is a direct relationship between tax and a 'transfer' system. Why does Treasury do it?

The Treasury should use clear, consistent definitions of key terms and apply them consistently, but it does not. For example, the Australian Bureau of Statistics (ABS) apparently defines taxes as 'compulsory unrequited transfers to the general government sector' and taxation revenue as 'revenue arising from compulsory levies imposed by government' (p.11) The Treasury has used the concept of 'transfers' to mean spending on welfare services and supports. This entails a focus on government services and support which is different and narrower in scope than the ABS concept of the term 'transfer'. I have no idea what 'unrequited' transfers are, but I bet this is important to courts and those who use them to enrich themselves at public expense. These are not trivial methodology issues. Clear and consistently used key terms are vital for scientific approaches. A glossary is also necessary to achieve this. It also needs to be included consistently in law.

Australia operates in a global economy, yet Treasury appears to take little interest in issues related to broadening the foreign income tax base (p.193). This is a major problem. In a brief discussion entitled 'How taxes affect savings and investment decisions' (p. 248) Treasury provides one of many strange charts, entitled 'Savings and Investments in an Open Economy'. In it, 'resident savers' and 'non-resident savers' face 'holding entities' which surround 'financial structures', which surround 'assets'. Apparently these 'holding entities' are banks, companies, superannuation funds or trusts. How exactly are these four entities defined and structured and how are they ideally treated by a government which seeks to govern in the public interest? They are far from powerless to determine economic outcomes but Treasury wrongly treats such 'holding entities', in passing. They are much more than 'holding entities'. They are trading entities in their own right, which may trade many opaquely valued financial products with unexpected outcomes, as the US sub-prime mortgage crisis has recently indicated.

The Treasury states that there are many taxes in Australia, all of which are ultimately paid from the earnings from only three factors of production: labour, capital and land (including natural resources) (p. 167). It is important that the ongoing analysis of the taxation system starts from this position. The treatment of land is logically addressed first. Understanding the public interest in the ownership and management of land is vital for understanding the public interest in any operation undertaken upon it – which includes most production and consumption. Continuing investment is logically addressed in a related context. Land taxes are state taxes which I assume are mainly passed on to purchasers of housing, which is becoming increasingly unaffordable. What is ideally the purpose of land taxes from a national, public interest based perspective? I have no idea and the Treasury paper provides no help. My guess is that all state land taxes, except rates, ideally are abolished. Rates superficially appear to fund a particular range of services to households comparatively directly and effectively.

Early discussion of how agricultural production is ideally related to surrounding communities and environments is necessary because agricultural products depend upon land for which communities may have competing values and uses. (See the attached submission to the PC for discussion of this.) Food is exempt from the goods and services tax but agricultural levies abound. They are listed from pages 62 to 69. What is the aim, if any, of agricultural levies from the perspective of government? Until this is made clear it is difficult to treat them. I have no idea how they should be viewed to attain the public interest in fairer, more sustainable development. However, I assume that to get the money for carbon emissions reduction and related offset investments it is ideally taken from as many areas as possible of government, industry and related institutional spending, where operations currently hinder the ideal aims and management principles of sustainable development. Doing otherwise is like driving a car with the accelerator and hand brake both operating. Are the agricultural levies that Treasury lists out of date?

Understanding the appropriate treatment of land and its natural resources is also vital for treating the mining industry and its related communities, locally and globally. Taxation needs to be considered in related contexts. By OECD standards Australia is a low tax country, the company tax rate is above the average and the tax transfer system is comparatively highly redistributive (p.xvi). In an article entitled 'Cutting company tax the first step to any reform' (AFR 21.9.07 p. 83), Heather Ridout, Chief Executive of the Australian Industry Group argued that cutting company tax and inefficient taxes and charges on production should be a high government priority. One can readily understand that comparatively high company taxes may make Australian industry less competitive internationally and domestically. In an article entitled, 'Don't punish success with more taxes' (AFR 1.1.08, p. 67) the Chief Executive of the Minerals Council of Australia (MCA) also complained that current high commodity prices appear to present an opportunity for super or windfall taxes on Australia's minerals sector. The MCA argues the mining industry pays for many facilities and services in remote areas which would normally be paid for by the public sector and that in 2007 the industry spent three times the all-industry average on training its workforce and is the largest private sector employer of indigenous Australians.

However, I assume all spending on industry, communities and all related taxation should now be better coordinated in the light of new international goals to achieve reduction of greenhouse gases, rather than risk fuelling rapid growth of inequality, market instability and inflation by continuing in the financial footsteps of the past. In this broader context of concern which all citizens should normally share about having well planned economic, social and natural environments, I think calls for super or windfall taxes deserve more thorough examination by the MCA. Superficially, the introduction of such practices appears to give industry and government a solid opportunity to work better together to plan economic stability and competition to achieve evolving community goals for sustainable development in an organized and competitive manner, like Keynes always wanted. (Combinations of the usual narrowly feudal interests meant the world was plunged in war again instead). The government and Treasurer ideally should revise their current perspectives on taxation in order to meet the goals of sustainable development. Superannuation requires analysis in related national savings and investment contexts.

Thank you for the opportunity to make this submission. I may make another on Treasury methodology later if I can summon the enormous energy necessary.

Yours truly  
Carol O'Donnell,

## **HEALTH AND EDUCATION FOR SUSTAINABLE DEVELOPMENT AND THE AUSTRALIAN CARBON POLLUTION REDUCTION SCHEME**

### **Carbon pollution reduction and international sustainable development directions**

This article takes the international regulatory context for carbon trading as beginning in 1990, when the World Commission on Environment and Development defined sustainable development as ‘development that meets the needs of the present without compromising the ability of future generations to meet their own needs’ (Beder 2006, p. 18). The Australian government’s carbon pollution reduction scheme green paper (08) claims its proposed arrangements are the best way to reduce greenhouse gas emissions and related carbon pollution, while minimizing the impact on Australian businesses and households. This article argues its approach is not scientific enough to achieve these goals and that the paper must also be judged as an element in achieving broader, new aims of sustainable development. The green paper appears to be derived from a range of perspectives more used to a feudal past. Popper defined science as the development of knowledge which is objectively grounded in the outcome of observation and experiment. More coordinated, scientific visions of industry and community development are necessary than the green paper provides. The policy direction recommended in this article follows Keynes, who called for the extension of ‘publicness’, with the government as leader rather than sole owner of funds to be competitively deployed with specified social and economic purposes and related evaluations. Management perspectives which seek stability and full employment through planning and investment of mandated insurance premiums or savings, so as to avoid market fluctuations, have been central to British and Australian developments since World War II. This article argues government, industry and related communities should now manage carbon trading together, scientifically and competitively.

In 1997 the Kyoto Protocol committed signatories to reducing greenhouse gas emissions which cause global warming, using the regulatory mechanism of national emissions caps and trading schemes. Ideally, this is a government and industry partnership approach to reducing carbon across communities. In this context, key differences between the statutory authority and private sector management models require consideration. A statutory authority is primarily driven by regulatory goals established in the interests of stakeholders, not run for the financial benefit of stockholders. The board is drawn from key stakeholders and other qualified community members. They report to the appropriate minister but perform independently, according to normal commercial principles, unless achieving the program goals requires some other action, which should be made clear. If the elected government interferes in the board or its administration this must be open, so it can be judged by all. The statutory authority management structure is designed to gain effective implementation of competition, as Hilmer (1993) and Australian heads of government envisioned it, to achieve the goals of sustainable development – economic, social and environmental – through service contracting and triple bottom line accounting. NSW WorkCover, which administers occupational health and safety (OHS), workers’ rehabilitation, re-employment and insurance legislation, related funds and investments,

provides a rough model for continuing consideration, along with the management of industry superannuation and other investment funds. This vision needs communication.

In 1992 the United Nations (UN) Rio Declaration on Environment committed governments to producing healthier environments. The first principle is that humans are at the centre of concern for sustainable development and entitled to a healthy and productive life in harmony with nature. Earlier World Health Organization (WHO) directions defined health as a state of complete physical, mental and social wellbeing. This requires broader health management perspectives than the medico-legal model, which focuses on diagnosis and treatment of sick bodies, rather than on improving the debilitating conditions which may surround and influence them daily. A study by the Harvard School of Public Health in cooperation with the UN and the World Bank provided a comprehensive and systematic overview of world health problems in 1990, on a nation by nation basis, with projections to 2020. Life expectancy at birth is expected to grow for women in all regions and also for men, but more slowly, mainly due to tobacco use. The average life expectancy at birth in the least developed countries ranged from 38 to 52 years, in comparison with between 76 and 81 years for developed nations. Investigation of mortality, disability and risk factors indicated a substantial proportion of international and national disease prevention planning should relate to controlling the main risks of premature death, which are malnutrition, poor water supply, sanitation and hygiene, unsafe sex, tobacco use, alcohol, and occupation. Much broader communication of sustainable development visions is necessary for planning and implementation of coordinated, consultative, partnership approaches to developing health and other services and investments. Integrated consideration of land and water use, as well as air pollution from greenhouse gas emissions is required in all related industry and regional contexts, as exploitation of natural resources can either undermine or support biodiversity and the quality of life of future generations.

Australia has followed the UN and WHO direction which sees human rights as in part conceived as nationally guaranteed minimum standards of care. In 1984 the taxpayer funded Medicare system replaced hospital and medical insurance which consumers had formerly purchased in the market with government subsidy. Medicare entitles all residents to health care free or at low cost. To increase choice and the total services pool, the government provides extra subsidies to consumers who purchase additional care entitlements through private health insurers. The US is the only OECD country where private expenditure accounts for more than half of the total expenditure on health care. It is also the one where health care expenditure is least cost-effective. (Duckett 2004). A government guaranteed approach to health care provides greater service access, equity and cost containment than having the market decide how care is delivered. Because of its national scope and influence over providers, the Medicare structure has stronger but unmet potential to improve the quality of care through comparison of care practices and outcomes, than is available in market driven systems. Since 1986, Australian government health promotion programs have reduced death from HIV/AIDS, cardiovascular disease, accidents and cancers primarily by changing the behaviour and environment of relevant populations through public education, screening and related improvements in technology and management. The aims of the National Health and Hospitals Reform Commission

(NHHRC) inquiry into Australia's future health system now focus on improving frontline care to promote healthy lifestyles and to prevent and intervene early in chronic illness. Related aims are to improve health services in rural areas and provide a well qualified and sustainable health workforce. Good communication systems are vitally necessary for this.

Following Bell and Drucker, Sen sees global political convergence as increasing because of the spread of science and called for open management systems which increase potential for broader community learning and creativity through sharing knowledge. Sen proposes a new concept of human security in which support for the poor, freedom of speech and transparent management are all understood as essential for effective operation of the market and equality. Traditional ideas about the market and competition, which have gradually extended globally from European, feudal origins, are now challenged vocally in many quarters. More open global markets reveal more demands for fairer treatment to meet more diverse development requirements. Sustainable development is a comparatively new and democratic vision supporting this direction, which ideally also requires an internationally coordinated focus on regional and local community health and the related identification and solution of key environment problems. For example, the Bill and Melinda Gates Foundation take prioritized, regional, holistic and scientific approaches to helping those who are globally poorest. It funds programs to improve community health, develop agriculture, and to provide access to financial security, libraries and related information networks. Some Australian organizations and communities are assisting this development and their own. Open education, like that delivered by the Open University (OU), which aims for quality, access and scale of delivery, in cooperation with regional communities and their tutors, is urgently necessary more broadly to develop new skills for sustainable development, greater social equality and to control inflation. Michael Young proposed the OU in 1962. It was backed by the British Broadcasting Commission and government which first set it up experimentally on radio and television. In 2003, the Sunday Times University Guide (14.9.03) rated the OU as 5<sup>th</sup> best in national teaching assessments by students. Cambridge University was first and Oxford sixth.

### **The Australian carbon pollution reduction scheme and its limitations**

Under Australia's carbon pollution reduction scheme the government will place a limit, or cap, on the amount of carbon pollution industry can emit. It will require affected businesses to acquire a 'pollution permit' for each tonne of carbon they put into the atmosphere. The number of carbon pollution permits issued by the government in each year will be limited to that necessary for the total carbon cap for the Australian economy. The cap will be progressively reduced. The scheme will concentrate on the biggest polluters - around 1000 companies. The quantity of emissions they produce will be monitored and audited. At the end of each year, each liable firm would need to 'surrender' a carbon pollution permit for every tonne of emissions it produced that year. Firms will compete at auction once per year or more to purchase the number of carbon pollution permits they require. Firms that value carbon permits most highly will be those prepared to pay most for them, either at auction, or on a secondary trading market. For others it is

assumed cheaper to reduce emissions than to buy permits. The government recognizes the costs to industry of reducing emissions will normally be passed on to Australian consumers in those industries sheltered from international competition. The cost of reducing emissions may also cause business failures in trade exposed industries and in other emissions intensive businesses, which can no longer compete effectively in global and/or domestic arenas. The government therefore pledges a range of supports to low and middle income households. It will also allocate around 30% of total Australian carbon permits free to emissions-intensive trade-exposed, entities (EITE) at the scheme start, possibly with additional compensation for strongly affected industries. The expectation is permit allocations will move towards 100% auctioning as the scheme matures.

The paper states that a well designed auction will channel carbon permits to those bidders that value them most, deploying resources to derive maximum benefit. Over time the secondary carbon market will begin to play a greater role in this regard. It points out that clear and simple rules reduce transaction costs and that scheme rules that are ambiguous and contradictory generate uncertainty and increase compliance costs for market participants. However, for reasons discussed later, the paper fails to convince that its proposals will achieve the goal of reducing carbon pollution cost-effectively. Global warming from greenhouse gas emissions is a scientifically identified problem which seems most likely to be fixed by scientifically designed emissions reduction solutions which can be openly applied, challenged and refined in continuing practice. Because of incorrect assumptions, inconsistent and unclear industry categorizations and poor scheme design, the green paper is very high risk policy. It appears to have been an attempt to give as many Australian lobby groups as possible what they want, without disturbing the past. More independently objective consideration is necessary to allow scientific approaches to identification of schemes which serve the broadest possible community of interests better.

The government preferred position is that a carbon pollution permit would be an entitlement composed of various 'rights' contained in legislation and that carbon pollution permits would be personal property (p. 150). It is unclear how this 'right' is related to other so-called 'human' or 'property' rights. Australian governments have resisted a bill of rights partly because rights and obligations are ideally conceptualized and considered together for effective governance and decision making to occur. Relevant rights legislation does not carry a clear concept of an individual's obligation to the community of which they are a part. The idea that rights are 'inalienable' rather than forged in culturally bound democratic struggles, indicates the feudal belief that they are innate in the order long ago given by God. Nevertheless, the UN Declaration of Human Rights is the logical beginning of more scientific, protective and egalitarian community orders, based on the requirement of respect for all individuals and their environments. Many earlier forms of common law, property rights and human rights concepts remain, however, in highly contradictory formulations, depending on their cultural origins. More broadly informed and openly scientific approaches to accountability are necessary for democracy, as well as for sustainable development, but the courts still infect much lower administration with narrowly pre-scientific assumptions and practices. These are also contained in many laws with voluminous prescriptions but no aims or clear definitions. Such laws are often

reverentially built upon existing rules and past legal interpretations of them, case by case. Evidence gathering and court presentation is adversarial and comparatively partial, rather than scientific. Courts adopt hardly any of the modern management and data gathering practices necessary for any kind of scientific administration and costing of services.

According to a recent Productivity Commission (PC) paper, economic regulations 'intervene directly in market decisions such as pricing, competition, market entry or exit'. Social regulations 'protect public interests such as health, safety, the environment and social cohesion.' (PC 2008, p.5). This division is problematic, because economic activity is undertaken with the social aim of supporting life and its associations. One wonders whether the government sees the green paper as a preparation for economic or social legislation. This matters because court practices are tightly rule bound, unlike scientific endeavour, which changes the material world by testing after judging. When Hilmer wrote his report on national competition policy which led to the passing of the Competition Policy Reform Act (1995) he defined competition as, 'striving or potential striving of two or more persons or organizations against one another for the same or related objects' (1993, p.2). This could have led naturally to management partnerships using triple bottom line accounting for sustainable development. However, the Trade Practices Act (TPA) contains no definition of competition and is wedded to outdated propositions that competition is always for money and that the greatest number of market players provides the ideal conditions for the contest, which can only do everybody good. In this paradigm, the consumer may be conceived as just another kind of trader or ignored. For example, in 2000, the treasurer called an inquiry into telecommunications competition regulation. In its report, the PC (2001) stated that, 'the main way in which pay TV providers compete is via content – in the words of some participants in the inquiry 'content is king' (p. 145). This is, however, one of few references to content in the report, in spite of the fact that the terms of reference specified that the review should have regard to the established economic, social and environmental objectives of the Australian government. The response is also typical of the Australian Competition and Consumer Commission (ACCC) and other government organizations, which take their lead from courts to avoid trouble.

For anybody not an economist, it requires a giant leap of faith to assume, as the green paper does, that making as much money as possible and reducing greenhouse gases as much as possible are naturally achieved most cost-effectively through trading processes. As the Director of CHOICE consumer policy and campaigns pointed out in the Australian Financial Review (11.8.08, p.65), until commission-based remuneration and asset-based fees disappear, consumers cannot be confident they are receiving impartial advice that is in their interests rather than in the interests of financial advisers. The green paper also takes an economic approach which appears to see government as omnipotent, like God, and in control of what industry does on a daily basis. For example it states that:

The key benefit of an emissions trading scheme over a tax is that it secures the environmental objectives by controlling the quantity of emissions directly. Emissions trading may provide greater long term policy credibility as the

community can see the direct link between the policy instrument and the environmental objective (p. 78).

‘The emissions trading scheme controls the quantity of emissions through the issuance of permits and leaves the price to be determined in the carbon market. In contrast, a carbon tax would control the price of emissions and leave the market to determine the quantity (p.161)

Such statements are articles of faith. No government regulator can control the quantity of emissions, because industry produces them and government regulators do not. This was recognised by all Australian government during the 1980s when OHS acts, which provide those at the workplace with duties of care, were introduced. The employer is in charge of work and others should cooperate. Government can only provide economic incentives to change behaviour, education, or punishment for breaches of law. The green paper hardly addresses education or penalties. A carbon tax is also unable to control, as distinct from influence, the price of emissions. The tax is only one of many influences determining the emissions price and its level of acceptance. The green paper explains the failure of European Union (EU) carbon trading as being because too many permits were allocated by EU member states through their national allocation plans for 2005-2007. The combination of generous allocations and the ability to pass on most costs apparently meant that some fossil fuel-fired generators were able to earn windfall profits from the scheme, which also provided other perverse incentives and outcomes (p. 347). Australia now seems headed down a similar road. Government and industry planning and related scientific and openly competitive approaches to carbon reduction are necessary instead for best results.

The success of individual operations between and within EITE industries is highly variable. Some firms may serve both domestic and international markets comparatively profitably or unprofitably. It is not reasonable for government to offer to compensate them all for the cost of their emissions reduction. Some mining operators, for example, may be emissions intensive and trade exposed but also very wealthy, as well as large polluters. The Queensland government has imposed a windfall profits tax on coal mining. It seems foolish to establish new systems where governments give away large amounts of money from general revenue with one hand, whilst taking it from the same source with the other. Automatic government provision of money to all firms in designated trade exposed and/or emissions intensive industries follow outdated notions of industry protection which Australia had formerly been renouncing. Government subsidy to assist sustainable regional development, funded by cutting all outdated regulation, would be better.

It is unclear in the green paper which firms will get their carbon permits free, which will have to go to auction to bid for them, and which will get extra compensation. Individual organizations are likely to be confused about their entitlements, as the paper concentrates on industry treatment, however poorly. This is likely to increase the demands on government and related scheme costs. Garnaut’s interim report on climate change warned:

Care would need to be given to the design of the institutional arrangements for administering the allocation and use of permits. Variation in the number of permits on issue or the price would have huge implications for the distribution of income, and so could be expected to be the subject of pressure on Government. There is a strong case for establishing an independent authority to issue and to monitor the use of permits, with powers to investigate and respond to non-compliance '(2007, p.65).

Such views appear irresponsible because government is elected to govern and by giving away its power to a body established at arm's length from itself, it can only make itself more ignorant and unaccountable than it would otherwise have been. The idea that establishing fund management bodies at arms length from an original body will guarantee objective management is particularly misguided if the appointed trustees have secret relationships and drivers of their own. The report of the Parliamentary Joint Committee on Corporations and Financial Services (2007) on the structure and operation of the superannuation industry recommended treasury conduct a review of regulation governing superannuation funds to identify how they may be rationalised and simplified. There is a prior need to describe and justify the funds' trustees and their wider aims and relationships, which the Joint Committee did not question. Otherwise, Australians may be paying for the privilege of increasing their own ignorance, costs and loss of control over their financial affairs. If industry superannuation funds openly tender their key service provision agreements it would encourage the market through educating it. This assumes perfect information, perfect competition, perfect accountability, perfect risk management and perfect democracy are logically and positively related. Surely all can agree on this?

The green paper is not consistent in its attitude to industry. Its general approach suggests that whatever regulation exists should not normally be challenged. This is a major and increasing cause of inefficient management and consumer cost. The paper suggests adopting Australian and New Zealand Standard Industrial Classifications (ANZSIC) but at other times builds uncritically on outdated law like that reflected in the chart of Australia's national emissions profile in 2006. The national greenhouse gas inventory uses the categories 'stationary energy; transport; fugitive emissions; industrial processes; agriculture; waste; land use, land use change and forestry (deforestation and reforestation). Broadly recognized industry and environment categories which are used consistently are necessary for scientific and efficient regional management. Greenhouse gas categories and practices also need to be reformed as a result of coordinated consideration of land use planning, including weed or pest control, housing and related urban development and waste management systems. Planning reform to achieve sustainable development is ideally led in the primary sector because air, land and water are the foundation of all future life. The comfort of Australians also depends particularly on a variety of forms of mining, which may produce major pollution. Better understanding of such key industry production chains and their ideal links with surrounding communities and environments is vitally necessary to achieve the goals of sustainable development effectively and fairly. Strategies to reduce greenhouse gas emissions are ideally an element of more holistic, cooperatively planned approaches to competition to achieve broad community goals.

Market trading alone may achieve service provision only in indirect and costly ways, and may never do so, as the evidence on international health care provision suggests.

### **More open educational approaches must lead sustainable development before 2010**

Work provides many securities, but may also create risks for workers, consumers, communities, employers, investors and taxpayers. It is also the source of risks to air, water, land and related biodiversity. If many inconsistent approaches to risk management arise, as currently appears to be the case, and these are driven by narrowly focused professional elites, red tape will be worse than ever before and business unsustainable. A vital part of the answer to this rapidly increasing problem is to develop open curricula for understanding and implementing sustainable development requirements as broadly as possible. In 1994, at the Asia Pacific Economic Cooperation (APEC) summit, national leaders agreed to create an Asia-Pacific free trade zone by 2020, and supported protection of health and the natural environment. Related goals should now guide government, industry and community planning, including for better designed and more open communication and education. Fund management structures to support planned development directions are ideally designed openly, so competitive performance and outcomes can be assessed. Decades of inquiry into Australian health insurance systems and superannuation funds suggest that social insurance models can harness the benefits of competition better to assist sustainable development than opaque, unstable markets which may often appear to focus only on more money for the most informed groups of investors.

The Council of Australian Governments (COAG) recently allocated \$243 million for development of standard business reporting. This ideally will cut costs caused by much inconsistent legislation, bureaucratic isolation and inefficient information management. Related problems must be solved before the National Greenhouse and Energy Reporting System (NGERS) for carbon pricing is introduced, which requires baseline audit of major polluters, prior to carbon permit allocation in 2010. Management of risks to people and natural environments are ideally carried out together, in the regional work and community management contexts in which they arise as problems. The Productivity Commission (PC) review of Australia's national consumer policy framework (2008) recommended the COAG instigate and oversee a review and reform program for industry-specific consumer regulation. Carbon trading is ideally approached in similar industry and regional contexts, in which the carbon permit is viewed as an insurance related financial instrument, to be used in broadly planned and competitive investments to reduce carbon pollution and its effects. Government and industry partnerships for greenhouse gas reduction may then more easily lead many cooperative community ventures across many linked boards in more effectively prioritized visions. The World Wide Fund Climate Solutions Vision for 2050 (WWF 2007) and other key findings, appear ideally implemented through such industry and regional investment frameworks. The WWF recommends breaking the link between energy services and primary energy production, strategies to stop forest loss and concurrent growth of low-emissions technologies, development of more flexible fuels,

energy storage and new infrastructure and the displacement of high carbon coal with low carbon gas. Carbon capture and storage potential must also be addressed.

Australian state OHS legislation provides a general regulatory context for more independent and broadly informed approaches to managing work and its risk. This can be compared with the scientific, evidence based approaches required of health workers towards communities and clients. Under OHS acts, managers are expected to identify, prioritise and control work related risks in consultation with workers and also to apply relevant codes of expert work practice unless there is evidence that another course of action is safer in specific circumstances. The health worker is ideally expected to identify community problems on one hand, or diagnose a particular client's problem on the other, so as to apply treatment after consultation and mutual consideration of relevant expert knowledge. Treatment may vary from the expected protocols when this appears necessary to meet specific situations. The reasons for deviation are documented. All such information may contribute to broader research aimed at improving governance and treatment outcomes for communities and individuals. Simple but practical and coordinated approaches to working more effectively to achieve solutions to a broad range of environmental problems are currently undermined by too many theoretically driven, controlling specialists. Open education for sustainable development ideally occurs before the start of carbon trading in 2010. Core management and vocational skills are ideally taught in broadly related regional and local contexts. Such pursuits should also be coordinated with the regional management of health, housing, transport and related development needs of children, the disabled and the aged, especially in poor communities. The strategies for national management and monitoring of native vegetation, for the conservation of biological diversity and for salinity and water quality should be considered for implementation as investments in related regional industry and community contexts.

In 1999, health experts advised health ministers to initiate national actions for safety and quality related to strengthening the consumer voice and learning from incidents, adverse events and complaints. Dispute resolution is ideally managed as a service, like health or education provision, which openly aims to improve all environmental outcomes. Alternative Dispute Resolution (ADR) is a process in which an impartial person assists those in dispute to resolve their issues. ADR can be facilitative, advisory, determinative or a combination of all three. In mediation, the practitioner helps the parties identify disputed issues, develop options, consider alternatives and try to reach an agreement about some issues or the whole dispute. A conciliator is a neutral party who considers and appraises a dispute. Expert assistance may be sought in regard to apparent facts of the dispute, the law, possible or desirable outcomes and how these may be achieved. Arbitration, expert determination and private judging are examples of determinative (decision making) ADR processes. Establishing dispute resolution systems and the comparative identification of their outcomes is a type of action research, consistent with Popper's view that all administration should be regarded as experiment. Action research is a problem focused activity proceeding in a spiral of steps, composed of planning, action and evaluation of the results of action. Community education, consultation, monitoring and outcome evaluation are also necessary for its undertaking. This is ideally a collective, emancipatory practice.

Current education development is far too narrow, opaque, slow, inflexible and expensive. When curriculum is not openly available to all, its quality cannot be judged and adds to all other learning problems. Since 1990, the COAG has sought national standards for health and environment protection, related occupations and supporting education. All governments passed mutual recognition legislation to prepare for national competition legislation in 1995. The shortages of doctors, nurses and other health professionals in rural areas are common knowledge. The PC review of the primary sector (2007) indicated the COAG initiatives to facilitate mutual recognition of skills certified under state legislation has made very slow progress and stated COAG programs should be broadened to cover all trades experiencing severe skills shortages, including for the primary sector (2007, p. 224). There are major shortages for competencies associated with mechanical and electrical trades, semi skilled employees (such as miners and plant operators) and for professionals (mining engineers, metallurgists and geoscientists). There are severe shortages in areas such as transport and logistics, heavy vehicle and train drivers and port and at-sea pilots. Based on protected future expansion, the minerals sector will require 75% (or 70000) more employees by 2015 than in 2005. The worst shortages are likely to be for semi-skilled workers and trades (PC, 2007, p.217). This will clearly create inflation. One particularly wonders who is going to deliver the huge construction and education program necessary for the National Rental Affordability Scheme, besides other major infrastructure projects.

In the national training system, Industry Skills Councils are responsible for consulting with employers, employees and other key stakeholders to identify current and anticipated skill needs of a particular industry sector. Training packages outlining competencies are developed and evaluated by industry stakeholders and approved by all state and territory training authorities prior to submission to the National Quality Council for endorsement. Once endorsed, the packages are delivered and recognised across Australian jurisdictions and become available on the National Training Information Service Website. However, they are not curriculum. Registered Training Organizations have responsibility for the design and delivery of curriculum. Teachers and trainers who meet the national teaching and assessment competency standards required by the Australian Quality Framework develop learning strategies and deliver programs. This is very closed, narrow, slow, and costly practice. All forms of communication and technology are ideally considered in the new global context in which skills and education for sustainable development must be developed as widely and effectively as possible before introduction of a carbon pollution reduction scheme in 2010. The objects of the Radiocommunications Act (1992) should have focused recent inquiries more effectively on educational and other screen content than was the case, because they seek management of the radiofrequency spectrum to:

- Maximise, by ensuring the efficient allocation and use of the spectrum, the overall public benefit derived from using the radiofrequency spectrum
- make adequate provision of the spectrum for use by agencies involved in the defence or national security of Australia, law enforcement, the provision of emergency services, or for use by other public or community services

The closed, computer-based, distance education initiatives which Australian universities have funded are comparatively little utilized (Gallagher 2000; Nelson 2002), their production costs are more expensive than classroom teaching and they have not made money (Marginson 2004). These products are not open to scrutiny so quality can be judged by hardly anyone except the students who have already paid dearly to consume them. Systems are not set up to utilize the wonderful archives possessed by Australian radio, video, television and newspapers. Australian emphasis on education partnerships which operate with much greater education quality, access and scale are vitally necessary. Open curriculum, communicated broadly and flexibly, is likely to be a much better guarantee of quality education which can reach wider audiences faster to create learning networks better. Students and communities can implement basic skills and governance principles related to injury prevention and rehabilitation, by doing practical exercises in the consultative identification and control of risks, in work or other community settings. Many may usefully make short films or similar products as part of their assessments.

The government's announcement of an 'education revolution' in late 2007, aimed to provide each school child with access to a personal computer, the 'tool-box of the future'. In his article entitled 'Abandon left and right for a vision to unite' in the Sydney Morning Herald (17.4.08, p.11) the Prime Minister discussed a vision to 'unleash the national imagination from beyond the ranks of politics and the public service' and 'to help fashion a national consensus around a common vision for the nation, with common goals to aim for within that vision'. The Australian Broadcasting Commission (ABC) outlined its plans for five channels. ABC5 will be the Educational Channel providing English and foreign language tuition, curriculum material and an integral digital resource for a newly developed national schools curriculum, with at least 50 percent Australian content to meet teachers' and students' needs. Coordinated consideration and attainment of open education and related entertainment content is vitally necessary, so learning on the job and away from it is easier for everybody. Community benefits can be derived across all boards if industry leaders, their organizations and members participate in broader, more open, regional community planning approaches which also address effective health service delivery, communication, skills and related innovative developments to achieve the diverse goals of sustainable development for as many as possible. The carbon pollution reduction scheme presents this opportunity in 2010. Focus on open education now.

## **Conclusion**

Australian design of a carbon permit trading scheme should be understood in the context of broader requirements for sustainable development and draw on earlier social insurance, administration and competitive investment perspectives. These have developed over recent decades in Australia primarily through community and work related health insurance, superannuation savings and supporting investment models which are also guided by national competition requirements and relevant international agreements.

Without an effectively scientific, industry and community management framework for sustainable development, carbon permit trading will be too narrowly focused and uncertain, with many associated risks and costs passed on to those without the knowledge or power to control them. Governments, industries and communities should cooperatively establish regionally coordinated, consultative and transparent planning, risk management and related fund management and investment structures, to support sustainable development goals competitively. Regionally coordinated, industry and community identification and prioritization of problems which can be solved by a range of simple or complex innovative projects for sustainable development are now required to meet the economic, social and environmental requirements for triple bottom line accounting. Broad communication partnerships and open education for development are vital to link, deliver and achieve the broadest possible vision cost-effectively. Carbon pollution reduction ideally leads this broader development, which is ideally also led by primary producers and in all related land and water management. Government, industry and community development partnerships for communication, skills development, education and other innovation could assist attainment of many other development aspirations internationally.

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## **SUBMISSION ON PRODUCTIVITY COMMISSION (PC) INQUIRY INTO DROUGHT SUPPORT AND PC REVIEWS OF BURDENS ON BUSINESS**

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### **OVERVIEW AND RECOMMENDATIONS**

This submission makes recommendations primarily in response to three Productivity Commission (PC) terms of reference and reports of investigation:

1. Inquiry into Government Drought Support (2008)
2. Draft Research Report, Annual Review of Regulatory Burdens on Business (Manufacturing and Distributive Trades) (2008)
3. Research Report, Annual Review of Regulatory Burdens on Business (Primary Sector) (2007)

All life and production are sourced from primary production, which harnesses the bounty of the land, water and air. The earliest of the above PC reports is therefore vital in providing guidance for recommendations relating to the others and is also vital reading for anybody concerned about sustainable development. The three inquiries above must now be logically addressed together, in the light of Australian agreement under the Kyoto

Treaty to reduce greenhouse gases harmful to the environment. This is ideally done in accordance with pre-existing regulatory mechanisms to conserve biodiversity, such as the Environment Protection and Biodiversity Conservation Act (1999), International Biogeographical Regions of Australia (IBRA), etc. Wrong and costly isolation in policy and programs between production and its impact on the environment needs to end. As Tony Abbott has said clearly, in today's Sydney Morning Herald (SMH):

The electorate wants problems solved and they don't want a treatise on why the relevant level of government can't solve a problem because it lacks the power. (SMH 10.10.08, p4):

Who would – unless they were a lawyer or a politician? Unless more broadly coordinated and openly competitive project management approaches are taken to establish and achieve environmental, social and economic development goals, the international goals of sustainable development and any reduction in carbon emissions through trading schemes will be hard to achieve and expensive. Australia can gain, even if taking steps alone.

Government consideration and response to diverse reports and recommendations in coordinated and openly consultative industry and regional contexts ideally provide a vital collective education prior to regionally based, holistic planning and action for greenhouse gas reduction and carbon trading. In this context, one may consider, besides the three reports out lined above: the PC Report on Impacts of Native Vegetation and Biodiversity Regulations (2003), the PC report on Australia's Consumer Policy Framework (2007), the current Review of Export Policies and Programs conducted by the Department of Foreign Affairs and Trade, the PC Review of Regulatory Burden on the Upstream Petroleum (Oil and Gas) Sector, the Australian Automotive Review, or many other relevant inquiries. Coordinated consideration of these reports may seem confusing. It actually makes all intelligent life easier, because clearer regional connections can be made to meet broader goals, on the basis of better knowledge, to adapt to triple bottom line accounting, which is economic, social and environmental. Old fashioned management operations in multiple, secretive silos, force all to pretend or to become more stupid than ideally is the case. Ideal relationships between production chains and operating arenas now require investigation. Academics are allowed to read anything. Whether they will or not is another matter.

The following recommendations are made and discussed as a result of the above position:

1. Identify and treat marginal producers. To provide drought support, focus on the reasons for the marginally effective farm and introduce incentives to encourage more sustainable land and water use.
2. Tackle burdens on the manufacturer and distributive trades in the earlier light of the more substantial review of regulatory burdens on primary sector business.
3. Find and target funding effectively for sustainable development by ending old fashioned funding practices related to legislation, industry protection, programs picking winners, etc. To get the money for carbon emissions pools, trading and

related offset investments, take it from as many areas as possible of government, industry and related institutional spending, where operations currently hinder the aims and management principles of sustainable development. When first set, the ideal carbon price is cost neutral for producers and broader regional communities.

4. Ask the Minerals Council of Australia to communicate with and assist primary and other companion producers and communities to meet their social and environmental obligations to future generations through their leadership.
5. Lead improved approaches to the development and mobility of skills and certification through first supporting the open education proposal attached, to cover all trades experiencing severe shortages in the primary sector. Discuss the proposed educational future with the Open University, Google and the Bill and Melinda Gates Foundation. Australian educators talked more than long enough.
6. Discuss investment in greenhouse gas offset development strategies and the establishment of related funding pools openly in all relevant industry and community contexts, including with superannuation funds.

Ideally, in a new international context of requirements for more sustainable development, the current generations are expected to care about broader collective futures, rather than just about their immediate family or tribe. This is also the ideal expression of nationalism which also seeks to avoid war through expanding all communication and trade relations. In Australia, this requires that totally new perspectives on conservation, protection, rehabilitation and compensation are taken, in opposition to those on trade protection and compensation which ruled us in the past. Governments, industries and communities which seek sustainable development must now cut out many dysfunctional costs to liberate more skilled performance in all areas and to reduce inflation. We must stop driving Australia with the hand brake and the accelerator both on. It just kills the motor. Even if no other country follows suit, this will still be a good idea. This is not the sustainable development based on Utopian altruism Garnaut talks about, it is economic self defence. Say good-bye to the Fat Controller. There's a new kid in town. (The One the Eagles always sang about.)

### **RECOMMENDATION 1: IDENTIFY AND TREAT MARGINAL PRODUCERS**

In regard to the PC Inquiry into Government Drought Support, this submission responds to the following inquiry term of reference by addressing:

The most appropriate, effective and efficient Commonwealth, state and territory government response to build self-reliance and preparedness to manage drought.

To provide drought support, focus on the reasons for the marginally effective farm. Provide incentives to encourage more sustainable land and water use, as discussed later.

For the purposes of argument, I assume that drought is caused by high levels of carbon emissions and that the control of greenhouse gases and the development of a related

greenhouse gas trading system are vital parts of the solution. The industry management recommendations that I make have the aim of gaining sustainable development through the related pursuit of more openly competitive markets. If my assumption that the drought is caused by carbon emissions is wrong, it does not matter. The recommendations create greater incentives for self-reliance than those created in any alternative management structure, because they aim at lessening community risk by increasing community knowledge and competition. They also follow the basic principle of Casemix health service funding, as used by Medicare, the backbone of Australian health service provision. Casemix principles assume that it is important to cost the production of various classes of services clearly and rationally, in order to identify and use all the potential benefits of competition effectively. Ideally, the benefits of competition are improved service access, quality, equity and affordability. These goals are delivered much better in taxpayer funded Australian and European health service models than in the US. More scientific management is necessary for sustainable development and more open markets are also vital. Only open education can deliver effective understanding. Otherwise all more narrowly privileged interests defined by the feudal legal past will keep on winning.

This submission therefore first focuses on the marginal farmer, farm business and farm dependent rural small business in order to ask the questions:

***From a sustainable development perspective, why is this particular operation marginal? Is it because the operation ideally should not exist in its location? Is it perhaps because it is a potentially vital infant operation, struggling against a dominating and dysfunctional industrial past, which now deserves to be nurtured and sensibly encouraged in the interests of sustainable development? What is to be done?***

The answer to these questions ideally determines the type of drought support which is discussed and offered to a failing business. Call this rehabilitation, land sale, lease or purchase, compensation, redeployment, retraining or what you will, depending on the individual farmer and government decisions made and recorded on the basis of the aims of sustainable development and the surrounding circumstances. This is ideally a big step along the road to better joined-up government. From a sustainable development and related risk management perspective, one should try to get production incentives effectively directed to supporting operational aims across all industry and community boards. Greenhouse offset operations for a sustainable future, such as tree planting, land purchase, aquaculture, native animal management or better green waste management may be undertaken in related contexts. I made a related research proposal to the Australian Automotive Industry Review, which is attached. The approach is critical of all earlier Australian regulatory structures supposedly designed to protect a block of 'trade exposed industries', or which seek to pick business winners, or which are focused on providing only compensation following injury or loss, rather than environment conservation, injury prevention and rehabilitation strategies which ideally benefit broadly linked communities.

Dealing openly and fairly with the marginal business operator, with the aim of achieving more sustainable development, will assist sustainable development globally as well as locally. This global and national research strategy will also assist government and

industry to identify and reduce many unnecessary costs on all production to benefit all consumers, producers and communities. This is ideally part of an open educational process, guided by goals of a sustainable development fair for all. For example, I assume the main goal of stakeholders in the Australian automotive industry should be to participate effectively in global search and production of the safer, greener, more affordable car. This need is ideally supported by related industry funding and offset development approaches commencing with programs related to introduction of the greenhouse gas emissions trading scheme in 2010, or thereabouts. From the perspective of the argument attached, Australian auto industry support mechanisms, such as the Automotive Competitiveness and Investment Scheme (ACIS) and related research and development incentives, should be folded into the new Green Car Innovation Fund announced by the Australian Government and this fund should be appropriately broadened in coordination with other safer, greener, planned transport innovation funds.

Greenhouse offset programs need to be well justified, coordinated, prioritized and carried out. Mining and other primary production chains are addressed later in this context. The recent performance audit on the recycling and reuse of waste by the NSW public sector requires consideration in related regional arenas. Its goals are to minimise waste generation and reduce the amounts of waste going to landfill. It is time to review the policy. One may wonder how urban and rural wastes and pests are ideally defined, related and developed in agriculture and related industries. Whither biofuels? What is the attitude of farmers, meat producers and other stakeholders to the kangaroo? Is it the best meat to eat, which need marketing widely? Is the attempt to find food for fish fingerlings in aquaculture likely to cause problems for other environments? (Thanks to Google, one can find answers to almost anything.) Once an environment has been roughly understood and its goals prioritized, in a reasonably flexible way, openness will protect the process of sustainable development and all citizens can learn to participate in open regional inquiry, according to their fashion and related institutional requirements.

Farmers are not alone, Narelle, in their financial problems. These may or may not have been exacerbated by drought which perhaps was in part caused by global warming. Does one do better in being obsessed by cutting costs rather than projecting numbers? I think so. For example, I assume the role of government in housing is ideally to make it easier for all Australians to find affordable homes. However, housing has become increasingly expensive since 1960, and rising household income has not kept pace with rising housing prices, especially in the past two decades, according to Milligan (Australian Housing and Urban Research Institute (AHURI, 2007). Yet the ranks of those now going into bankruptcy are dominated by small builders, with most of those who failed having less than \$100,000 in assets. Over the last three years, between 82 and 84 percent of insolvencies were for companies with less than 20 employees and between 43 and 44 percent were supposedly due to poor management of the business, according to the Australian Financial Review (AFR 27.7.08, p. 17). As the recent history of poor government housing policy, HIIH insurance failure, and the sub-prime mortgage crisis all show clearly, the problems of bad management start much higher up the national food chains than small builders and are the cause of many unnecessary costs on businesses, consumers and communities. Construction is a vital Australian industry full of highly

skilled men who are often forced to work very hard under very high risk conditions. From a sustainable development perspective this national resource has been managed very poorly and many other consumers suffer related financial costs and business problems.

The attached discussion of inflation, housing, borrowing and investment issues was provided in response to the PC report of the Review of Australia's Consumer Policy Framework and addresses some key management problems regarding construction, finance, insurance and property and business services. Among other things, it called for clearer definitions and related operational descriptions of how business is done under the Australian Bureau of Statistics (ABS) service categories of the Australian and New Zealand Standard Industry Classification (ANZSIC), headed: Construction, Finance and insurance, Property and business service. At its last meeting, the Council of Australian Governments (COAG) allocated \$243 million over 4 years for the development of standard business reporting (Rudd's New Deal, AFR, 4.7.08, p.21). This is necessary to cut costs caused by vast quantities of inconsistent legislation, bureaucratic isolation and major inefficiency. The problem also needs to be solved to meet the requirements of the National Greenhouse and Energy Reporting System (NGERS) and effective carbon pricing by 2010. (See related and attached discussion on the NGERS and carbon pricing.)

Reform to achieve sustainable development is logically led by the primary sector because land, water and air are the foundation of all future life. Take a historical and related production chain and surrounding environment approach in which the goals of fairer and more sustainable development are ideally achieved by attempted reduction of greenhouse gas emissions in a manner which enhances competition. This cannot be done without new and more open management approaches to skills development, education, information, consultation, work practice, risk management, dispute resolution, data gathering, evaluation and other research or innovation (call it what you will). These services ideally replace or radically reform all dysfunctional industry protection and bureaucratic practices which now hold back more rational, open approaches to gaining sustainable development. Start with support for open education, as in the letter attached. Cut costs and save money.

Without an effective management framework for sustainable development, trading to improve performance is likely to remain highly speculative, with all the associated high risks and costs. In the wake of investment losses in the sub-prime mortgage crisis, I assume the combination of continuing high levels of Asian industrial development and the increasing price of oil, coal and iron are likely to drive even more rapid investment in traditional mining of fossil fuels rather than leading to more planned approaches to development to reduce greenhouse gas emissions. I also understand the European experience of carbon trading schemes has been that the long-term price of tradable emissions permits is too uncertain to be a driver of systematic technological change in industries where generating capacity investments are ideally planned over thirty year periods. In this global context, whether prices for petrol and other energy products rise or fall for the consumer in the street is mainly a political decision, like any other. The structure and performance of industry superannuation funds suggests many would be able to assist sustainable and more open approaches to development. They have already got rid of some unnecessary fees and performed better than many other funds, as discussed later.

The World Wide Fund Climate Solutions Vision for 2050 (WWF 2007) and other key scientific and regional studies, appear ideally implemented in related investment contexts. The WWF recommends breaking the link between energy services and primary energy production, strategies to stop forest loss and concurrent growth of low-emissions technologies, development of more flexible fuels, energy storage and new infrastructure and the displacement of high carbon coal with low carbon gas. Carbon capture and storage potential must also be addressed. The national framework for the management and monitoring of native vegetation, the national strategy for the conservation of biological diversity and the national action plan for salinity and water quality also appear to be most logically considered for implementation as greenhouse gas offset investments in related regional industry and community management frameworks.

## **RECOMMENDATION 2: TACKLE BURDENS ON THE MANUFACTURING AND DISTRIBUTIVE TRADES IN THE EARLIER LIGHT OF THE REVIEW OF REGULATORY BURDENS ON PRIMARY SECTOR BUSINESS**

The PC currently seeks comment on the Annual Review of Regulatory Burdens on Business in the Manufacturing and Distributive Trades (2008). The Commission has been asked to identify specific areas of Australian Government regulation that are unnecessarily burdensome, complex or redundant; or which duplicate regulations or the role of regulatory bodies, including in other jurisdictions. It has also been asked to develop a short list of priority areas for removing or reducing regulatory burdens which impact mainly on the sector under review and have the potential to deliver the greatest productivity gains to the community. The approach and rationale of the review immediately refers the reader back to the Annual Review of Regulatory Burdens on Business in the Primary Sector (PC 2007). Without this prior reading, which provides a wealth of information, the current review is a comparatively meaningless list of concerns.

The Productivity Commission's report of its review of Australia's national consumer policy framework (2008) recommended the Council of Australian Governments (COAG) instigate and oversee a review and reform program for industry-specific consumer regulation. It is logical to have a coordinated industry based approach to sustainable development as well, if one assumes that the production related management of risks to workers, consumers, communities and natural environments appear most easily carried out together, through the related industry and community management contexts in which they arise as problems. The report of the Standing Committee on Economics, Finance and Public Administration inquiry into the current and future directions of Australia's service industries (2006) stated that the nature of many services limits the scope for productivity improvements. However the reverse is true. Many services, such as finance and insurance, property and business services, electricity, gas and water or transport also represent unavoidable costs for manufacturing and many other businesses which need to be competitive in overseas markets in the interests of all Australians. Such problems can be addressed better from regional industry and community perspectives which are broadly scientific, as distinct from being driven by many more narrowly defined but ruling legal, financial, bureaucratic, professional or related academic interests. In this holistic context,

primary production is most logically dealt with first, as Garnaut recognized, but he ignored mining. Tourism, parks, zoos and all related developments and community concerns also require broadly connected expression to help decision makers improve the quality of life.

**RECOMMENDATION 3: FIND AND TARGET FUNDING EFFECTIVELY FOR SUSTAINABLE DEVELOPMENT BY ENDING OLD FASHIONED FUNDING PRACTICES IN RELATION TO LEGISLATION, INDUSTRY PROTECTION, ‘PICKING WINNERS’, ETC.**

To get the money for carbon emissions pools, trading and related offset investments, take it from as many areas as possible of government, industry and related institutional spending, where these operations currently hinder the aims and management principles of sustainable development. Doing otherwise is like driving a car with the accelerator and hand brake both operating. It is foolish and ruinous. When first set, the ideal carbon price is cost neutral for producers and communities. Its broadly scientific estimation and related form of fund management ideally increases business stability, the potential for continuing scientific management and for more effective competition to achieve all government, industry and related community goals. The initial source of funds for the emissions trading scheme should therefore be taken out of old government or industry funds and directed into new funding pools for more sustainable development. This is ideally the same process as for the deregulation of earlier, dysfunctional legislation and funding, in order to gain more sustainable development across the national or international board. The speed of the transfer will influence the new fund quantum. Support it with open education.

Submission makers to the PC review of regulatory burdens in the primary sector questioned why they should carry a disproportionate share of the costs of pursuing national objectives such as meeting climate change objectives, preserving native vegetation or improving the efficiency of water markets which are for the benefit of the community as a whole. They also argued that where compensation is provided, it is often much less than the loss imposed. This is a major reason that it is important to focus on conservation, injury prevention and rehabilitation in the context of the organisational production chain in relation to its surrounding community. A holistic risk management approach is necessary which is consistent with the requirements of triple bottom line accounting. Lawyers drive compensation, which is often costly, without giving anybody else much voice or opportunity. The National Greenhouse and Energy Reporting Bill (2007) is now a key chance to replace dysfunctional regulation and to assist attainment of more informed markets and better skills development in future. The Senate inquiry into the bill noted there are fifteen separate programs with greenhouse and energy reporting requirements. The bill presents a chance for an investigative baseline audit of major polluters to establish better scientific foundations for carbon measurement, pricing and permit trading and for better industry and community based innovation and regional development in future.

On ABC television (6.7.08) Garnaut expressed particular concern about the plight of the trade exposed, carbon intensive industries, if they have to bear the cost effects of Australia introducing a carbon emissions price and a related carbon emissions trading scheme. In my view, a trade exposed, carbon intensive, wealthy primary industry, such as mining, is

in the best possible position to lead Australia into more entrepreneurial, safer, cleaner, cheaper activities, with clearer and better environmental results. This ideally would also present Australia with many opportunities for closer cooperation with China, a major global polluter which, because of mining, is Australia's largest trading partner. For example, in previous submissions I described Chinese and Australian developments and related health and welfare experiences in order to promote research cooperation in mutually agreed forms of social insurance design and related education, development and research. Of particular interest is the appropriate role of the private sector insurance company and the potential for providing mutually agreed forms of governance education to improve management and health in many work and community settings. The approach also has potential for meeting many skills shortages better.

Positive incentives for sustainable improvement across all regional industry and community boards are necessary, rather than a funding emphasis on helping trade exposed industries. In addition, many bureaucratic or academic silos trying to pick winners to deliver small amounts of funds to, at comparatively great expense, should now be cut. The report of the Australian House of Representatives Standing Committee on Economics, Finance and Public Administration inquiry entitled 'Australian Manufacturing: Today and Tomorrow' (July 07), referred to the general business abhorrence of government financial strategies which attempt to 'pick winners', but these are often used by government. The report discussed the Export Marketing Development Grants (EMDGs), research and development tax concessions, and the case of venture capitalists. It appears that many of those in manufacturing, no doubt like many academics, feel that hopelessly competing for comparatively small amounts of money is a waste of organizational and related government time and money. The Business Council of Australia wants inefficient taxes and charges on production cut. The ACTU submission stressed that Australian industry should progress 'up the value chain'. Bluescope Steel pointed out that one of its major priorities is 'ensuring greenhouse gas regulations do not make Australia's steel industry uncompetitive' and that China is the world's largest producer and consumer of steel and is naturally a major polluter. Such views suggest many wider opportunities exist for the proposed design of more direct routes towards sustainable development, as now suggested.

**RECOMMENDATION 4: ASK THE MINERALS COUNCIL OF AUSTRALIA TO COMMUNICATE WITH AND ASSIST PRIMARY AND OTHER COMPANION PRODUCERS AND COMMUNITIES TO MEET THEIR SOCIAL AND ENVIRONMENTAL OBLIGATIONS TO FUTURE GENERATIONS THROUGH THEIR LEADERSHIP**

In an article entitled, 'Don't punish success with more taxes' (AFR 1.1.08, p. 67) the Chief Executive of the Minerals Council of Australia (MCA) complained that current high commodity prices appear to present an opportunity for super or windfall taxes on Australia's minerals sector. He stated the Queensland government has decided to levy an additional 'super royalty' on coal and that minerals companies already pay company tax and royalties 'both of which are progressive and therefore increase with company revenue'. The article argued that a tax policy should not be sector specific and that it should be based on a set of coherent, consistent principles that promote economic activity, certainty, neutrality and equity. The last sentence seems a good idea to me. However, one also assumes that those working in mining want more environmentally friendly production

at least as much as any other global citizens and hopefully more than most. Their high productivity levels and elite global relationships appear to mean they certainly have more power to achieve their goals than anybody else. They should do so by working more logically with governments and communities to gain the goals of sustainable development.

The MCA argues the mining industry pays for many facilities and services in remote areas which would normally be paid for by the public sector and that in 2007 the industry spent three times the all-industry average on training its workforce and is the largest private sector employer of indigenous Australians. I know little about how industry taxation practices operate or their effects. However, I assume all spending on industry, communities and all related taxation should now be better coordinated in the light of new international goals to achieve reduction of greenhouse gases, rather than risk fuelling rapid inequality and inflation by continuing in the financial footsteps of the past. In this broader context of concern which all citizens should normally share about having well planned economic, social and natural environments, I think calls for super or windfall taxes deserve more thorough examination by the MCA. Superficially, the introduction of such practices appears to give industry and government a solid opportunity to work better together to plan economic stability and competition to achieve the evolving community goals for sustainable development that Keynes would always have wanted. Combinations of the usual idiots with narrower interests meant the world was plunged in war yet again instead.

Many terms now require clearer definition. The primary sector community expressed its concern to the PC review (2007) that there is insufficient progress in establishing property rights and trading regimes, and there were too many uncertainties regarding water allocation, ownership and trade. The PC replied that all relevant agencies should apply best practice policy design in developing the national framework for property rights and trading in water in order to avoid unnecessary burdens. This issue is currently being dealt with by governments. However, the PC also wrote that in particular, the new national framework for water should facilitate market transactions so that scarce resources go to their highest value uses and any exceptions from the framework should be fully justified (2007, p. xxxvi). One wonders how highest value use is ideally defined. The article entitled 'Balance hard to find in water trade', by Hung Chu and Wayne Lonergan of Edwards and Associates (AFR, 8.7.08, p. 63) discusses this in a way I don't understand. Why should irrigators exiting the water delivery infrastructure have to pay exit fees at all? Aren't they doing everybody else who remains a favour by leaving them with more water? (I digress slightly, but clear understanding of 'highest value uses' in this area seems vital.)

The PC also stated that 'the development of the Australian greenhouse gas emissions trading scheme has the capacity to address red tape and reduce unnecessary burdens provided that best practice policy design is applied (2007, p.217). It argued that 'in particular the new scheme should establish ways to facilitate market transactions so that abatement occurs at the lowest overall cost and any exemptions for the scheme are fully justified'. It noted that, 'ongoing monitoring and evaluation of progress is important'. These are views I share, however, they again raise the question of how value should be defined for triple bottom line accounting. This is a vital issue for global eco-tourism and, for example, for the comparatively few remaining mammals and dipterocarp forests of

Asia. These are cut down for wood, followed by palm oil or other plantations worked by immigrants. This is achieved by natives leasing their plots of land and going to town. On the other hand, Brunei has oil, 85% of forests intact, free health care and free education.

Could the Australian Competition and Consumer Commission, presiding over the Trade Practices Act (TPA) help Australia achieve sustainable development? I very much doubt it. It remains a hybrid creature of its feudal and 19<sup>th</sup> century economic past. In 1993, Hilmer's report to Australian Heads of Government on his independent committee of inquiry into a national competition policy should have led naturally to a highly competitive approach to sustainable development and triple bottom line accounting. He defined competition as, 'striving or potential striving of two or more persons or organizations against one another for the same or related objects' (1993, p.2). However, this late twentieth century idea, that competition need not only be for money, has since been overlooked, in spite of many apparently foolish additions to the TPA, which is based on older, highly dysfunctional legislation. In a recent discussion of the shortcomings of the TPA, Warren Pengilley, foundation commissioner of the former Trade Practices Commission, stated that the first problem of the legislation is that 'we have no basis for agreement as to what competition really means' (AFR, 20.6.08, p.9). Lawyers have conveniently ignored the common dictionary for centuries. Complexity is so satisfying?

The TPA does not create freer markets. Instead it reifies in feudal, pre-scientific form, a lot of demonstrably wrong or unverifiable 19<sup>th</sup> century economic suppositions about the way markets ideally work and then requires this set of rules to be administered by an occupational monopoly which is bound by feudal practices. TPA provisions about major new concepts, such as consumers, (a new class of traders); have recently been added to the same old mix. In talking about TPA problems and the apparent need for redrafting, Pengilley states his fear that it 'will result in the TPA assuming a life of its own in which no one except the expert trade practices lawyer will be able to share'. (Gee, that would be different - free market, my foot!) A few journalists or other sensible people could revise a lot of stupid legislation quickly. They could work out for themselves that it needs aims, clear definitions and should be in plain English. This will be more than lawyers have been capable of in centuries. Related informative pamphlets on the net could save billions.

For example, it would be wonderful to see the PC Table 4.1 entitled 'Minerals sector value chain and the impact of regulations' developed in a short narrative form, along with other industry tables in the PC report. This would allow people to begin to understand and contemplate the logic of production chains in the context of their environments, rather than in total ignorance of relevant legislation, or as the response to much disorganized, apparently self-generating, comparatively meaningless legalese, as is perhaps the norm. Apparently the MCA has already recommended to the PC that 'codes of practice and guidelines should be developed and applied on a national basis and provide consistent parameters for mining operators (sub.37, p.16, PC 2007, p.238). On page 240, however, the PC states that mine safety regulation is taking too long. As a former WorkCover employee that does not surprise me. Mining has a lot to clean up but also power to do it.

**RECOMMENDATION 5: LEAD IMPROVED APPROACHES TO THE DEVELOPMENT AND MOBILITY OF SKILLS AND CERTIFICATION THROUGH FIRST SUPPORTING THE OPEN EDUCATION PROPOSAL ATTACHED, TO COVER ALL TRADES EXPERIENCING SEVERE SKILLS SHORTAGES IN THE PRIMARY SECTOR. DISCUSS THE PROPOSED EDUCATIONAL FUTURE WITH THE OPEN UNIVERSITY, GOOGLE AND THE BILL AND MELINDA GATES FOUNDATION. AUSTRALIAN EDUCATORS HAVE TALKED FOR MORE THAN LONG ENOUGH.**

The PC report on its review of the primary sector stated that recent COAG initiatives to facilitate mutual recognition of skills had made slow progress towards fully implementing the objectives of the mutual recognition arrangements and that COAG programs should be broadened to cover all trades experiencing severe skills shortages, including those specifically affecting the primary sector (2007, p. 224). How hard can it be to amass open curriculum materials for trades and assist dissemination? If tertiary teachers and their representatives are left to their own devices they will never do it, in my opinion. Earlier the PC wrote:

‘With regard to some existing regulatory frameworks such as those affecting vocational education and training and on transport infrastructure (especially for exports), regulatory reform can play some role in removing bottlenecks along the delivery chain and in achieving consistency across jurisdictions. However, funding and pricing are also very important’. (PC p.xvii).

Skills development and labour mobility issues require urgent consideration and action in this context. TV and other media can play a great supporting role. On page 217 the PC notes that currently there are shortages for trades (especially for competencies associated with mechanical and electrical trades), semi skilled employees (such as miners and plant operators) and for professionals (mining engineers, metallurgists and geoscientists). There are also severe shortages in related areas such as transport and logistics, for example, heavy vehicle and train drivers and port and at-sea pilots. According to the MCA, ‘based on protected future expansion’, the minerals sector will require 75% (or 70000) more employees by 2015 than in 2005. The worst shortages are likely to be for semi-skilled workers and trades (PC, 2007, p.217). Open education and certification are vital in this context. National curriculum should be put together now. It does not have to be the Bible. What does the MCA think it is getting in universities and technical and further education? Who really has a clue what curricula contain? Support much more open education, as described in the attached letter written after a visit to the Open University in England.

The concept of excellence in research training and all earlier educational aims outlined above must be understood in a new international market and related communications, research and education context. Google has just announced plans to build multi-billion dollar data centres in the Pacific North-West. The Google mission statement is to ‘organize the world’s information and make it universally accessible and useful’ (Sydney Morning Herald (SMH) 16.6.06, p.11). Bill Gates, the Chairman of Microsoft and the world’s richest person, has now stepped down from his former work to focus his attention on improving global health and access to technology through the Bill and Melinda Gates

charitable foundation, which holds \$US 29 billion. Gates started this organization with his wife, a former Microsoft employee, who now manages the foundation assisted by members of the family and many others. It has contributed \$US159 million, or half of worldwide funding for research that could result in ten new drugs to help the poorest people fight diseases such as malaria and tuberculosis (SMH, 17.6.06, p. 17). Patents do not deliver drugs to such people. They serve the rich first and the poor, perhaps never.

Health and related policy to manage environment and business risk must be joined up. Australian governments should therefore support the above directions towards education accessibility and related sustainable development for all through more openly available information. To do otherwise is to risk being taken for a comparatively closed and privileged community with its roots in an English feudal past, which continues to make the country the primary career tool and plaything of its professionally related national and international elites. They in turn are encouraged to blunder along in the casinos of international markets which are often controlled by narrow but powerful US interests, inured by their trading habits to losing other people's money. To prevent this, Australians should first stop supporting comparatively narrow and closed educational approaches. Better attitudes to government and competition are required for sustainable development and to fill the computer, the PM's designated tool box of the future properly.

**RECOMMENDATION 6: DISCUSS INVESTMENT IN GREENHOUSE GAS OFFSET DEVELOPMENT STRATEGIES AND THE ESTABLISHMENT OF RELATED FUNDING POOLS OPENLY IN ALL RELEVANT INDUSTRY AND COMMUNITY CONTEXTS, INCLUDING WITH SUPERANNUATION FUNDS**

The managers of greenhouse gas related funds derived by the methods discussed earlier are ideally charged with managing money amassed from devising a carbon price, as discussed in related attachments. The fund managers may also invest additional monies derived by clear and lawfully related means. They ideally invest all funds in well managed businesses which may also provide investors with well planned offset opportunities to reduce the level of greenhouse gases and to achieve more sustainable development. It therefore seems logical to discuss the proposed fund establishment methodology and related future investment strategies for sustainable development with those superannuation funds which performed best for members. According to the AFR (25.6.08, p. 61) these are MTAA Super, Cbus, AustralianSuper, Westscheme, Buss(Q), HOSTPLUS, Intrust Core Super, Catholic Super, Telstra Super Corp Plus and AGEST.

Thank you for the opportunity to make this submission.

Yours truly, Carol O'Donnell

Dear Sir/Madame

I refer to your recent report on Australia's Future Tax System and to the related submission I recently made to you. This is my second submission. I would be grateful if you would now accept the book review below and submission to the Productivity Commission which considers the same four questions you allude to on your website, which I also addressed last time.

Yours truly, Carol O'Donnell,

#### STUPID CAROL ASKS ABOUT HOUSING, LOVE AND A YOUNGER KEATING

In 'Unfinished Business: Paul Keating's Interrupted Revolution', David Love primarily describes the recent decades of Australian financial policy transition and related practice which Australian governments considered was necessary to meet the requirements of effective participation in international markets. The book also argues for an increase in current superannuation contributions to meet Keating's ideal of the policy 'golden circle', which is 'the line that runs through rising household savings to rising capital supply to rising international strength to stable interest rates and back to rising household net worth' (p. 205). This is a fascinating book, which I read in a single rainy day in bed. While doing so one may also wonder whether Love is nasty, dumb or merely kidding.

Love begins by lecturing a farming friend who stands to lose his house through having to meet changed borrowing requirements, which the farmer and his bank manager had never understood in the first place. As the financial expert, Love says, 'My home has a yield set by taking the rent I could get for it as a percentage of its market value. If the market value goes up the yield drops, because it is now a lower percentage of the new market value' (p. 9). From a logical perspective, it seems to me Love's statement is incorrect. If the market value of my house goes up, the yield should also go up, because ideally I should now be able to get more rent for it. This leaves aside, however, an apparently trivial point of consumer interest, which is that the normal person's house does not have a yield because the buyer is living in it rather than renting it out, and also owes the bank a lot of money. Another financial expert, Gittins, recently argued in the Sydney Morning Herald (SMH 19.9.07, p.13) that by owning one's own dwelling one is escaping tax, which those renting and those who rent to them must pay on forms of income they derive by not investing in their own homes, but in something else instead. Gittins wants government to tax home ownership, which he also laments is a politically unacceptable position. As one of Love's 'bewildered pensioners', it seems to me that most people want to buy a house because they need somewhere to live and view renting as throwing money down the drain. They may also think of themselves as lucky if they can afford to owe huge sums of money to a bank. Love and Gittins often present dishonestly, on the side of the rich, rather than all citizens.

Many debates about how to determine land, housing and related business values now need to be addressed because these estimated values, along with superannuation funds appear, according to Love, to be the foundations on which mass lending and investment have largely occurred in recent decades. Since government supported saving through

superannuation became compulsory for workers and employers less than twenty years ago, some Australian political, trade union, business and newspaper representatives have probably now become quite rich from engaging in financial deals ultimately based, I guess, on traditional valuation methods, irrespective of the outcome of these and any related deals that have been done while managing other peoples' money. Are these the same few who are now calling for employers and workers to put more money into superannuation? Will this also ensure a magnificent financial resurrection for many old mates, including Labor, and benefits for those offspring judged loyal enough to share? My guess is yes. For our own protection, at least let us first understand more about ideal financial policy and practice and its relationship to housing. Love states about the current sub-prime mortgage crisis, 'collaterall is the homes against which mortgages are held, and it has to be viewed as capital of the banks that is being destroyed' (p. 228). The homes, however, exist much as they did earlier. Does government ideally take the banker's perspective? No, as Love only sometimes appears to understand.

Love quotes Bethany McLean, of America's 'Fortune' magazine, who co-wrote 'The Smartest Guys in the Room – The Amazing Rise and Scandalous Fall of Enron'. The latter started its spectacular life in clean energy and related trading. Many key managers and close associates soon got out rich or ended up in jail, at enormous public expense. McLean apparently also wrote that the Macquarie Bank seems to be engaging in 'an old-fashioned Ponzi scheme'. This is a fraudulent investment operation that involves paying abnormally high returns to investors out of the money paid in by subsequent investors, rather than from net revenues generated by any real business. It requires an ever increasing flow of 'investment money' in order to keep the scheme going (p. 113). One wonders how to tell the difference between the legitimate value creating operations of the marketplace and running a Ponzi scheme, as the key features of all legitimate businesses have always included that operational information is almost nobody's business but their own. Since lawyers guard all 'commercial in confidence' information, the economist's later bright idea that perfect information is needed for a perfect market, may easily be lost, especially by the same financial experts. Love later states, that the government '.....can't articulate how the original destruction of superannuation policy' contributed to the slump in the value of pensioners' holdings'. In my view neither can Love. I guess this is because clarity could seem too rude to a lawyer or a number of significant others.

Love states that 'The Rudd government must find within itself a capacity for a coherent explanation, in terms that bewildered pensioners can understand, of why an advance in the industrial pension ration is a vital part of the solution' (p. 245). As a bewildered pensioner, I'm touchingly happy with my pension from State Super, because it will go on regardless, or so they tell me, until I pass away. I believe it's actually as a bewildered investor that I'm currently imagining UniSuper losing all my capital very soon through gritted gums. I look forward to the reviews of Love in the Fairfax Press and from Packer's former stable of gilded youth who are now, I guess, much more gilded than they used to be when the Bulletin was there to keep their pulses racing. Good riddance to bad rubbish, from my perspective. I would be particularly keen to know why MTAA triumphed above all in its investments recently and whether many others should now try to copy. It would also be good to know what one of Keating's kids was trying to do with

land in the South Pacific before he fell foul of the NSW police. Love's hagiography, without enough clear and honest information regularly made me sick. I'd say this is where following a chosen father figure or a good friend's lawyer has always leads us, but the reader would naturally think I'm biased. This, however, is not the politics of envy writing. They principally remain Victoria's secret and certainly never talked to me.

## **INFLATION, HOUSING, BORROWING AND INVESTMENT PROBLEMS**

### **SUBMISSION ON PRODUCTIVITY COMMISSION DRAFT REPORT OF THE REVIEW OF AUSTRALIA'S CONSUMER POLICY FRAMEWORK**

This submission on the Productivity Commission draft report of the Review of Australia's Consumer Policy Framework calls primarily for clearer definitions and related operational descriptions of how business is done under the Australian Bureau of Statistics (ABS) service categories of the Australian and New Zealand Standard Industry Classification (ANZSIC), headed:

Construction  
Finance and insurance  
Property and business service

The Prime Minister puts fighting inflation first and so do I. My submission is also aimed at assisting the design of better incentives for sustainable development, more affordable housing and related services. The following recommendations are made with supporting argument below and attached:

1. Clearly state the causes of inflation so they can be addressed from the perspectives of government, the market and consumers
2. Pursue government, market and community goals according to broadly scientific principles, which also requires more openness
3. End legal privilege which prevents markets trading more openly, scientifically and freely
4. Deal with market asymmetry through using government to generate more informed markets and communities which provide more information and debate in order to agree on common direction
5. To control risk, understand the potential relationships of science, industry, sustainable development and free market pursuits better
6. Adopt more institutional economic and related scientific analyses
7. Implement the competition policy that Hilmer and Heads of Government wanted
8. Address the planning concerns of local councils nationally
9. Review unscientific planning approaches and treasury requirements
10. Define key terms through current WorkChoices debate wherever relevant
11. Invite industry superannuation funds to become guiding mother ships of financial services reform and provision of better incentives for more affordable and sustainable housing
12. Spend taxpayers' money more scientifically, to produce more affordable and sustainable housing

**1. Clearly state the causes of inflation so they can be addressed from the perspectives of government, the market and consumers**

I cannot clearly understand what causes inflation besides wage rises which people spend rather than save, perhaps in superannuation. Would a badly designed greenhouse gas trading system increase inflationary pressures? I guess so. NSW Chief Justice Spigelman recently wrote an article entitled 'Big litigators should foot the bill: judge.' (AFR, 11.1.08 p.1) in which he discusses litigants who shift their legal costs onto the community. Is this inflationary or does it have no economic impact of that nature? I have no idea. We must be clearly told what the primary causes of inflation are and how they are likely to be fixed.

I spent the past twenty-five years working in state government and later researching health and social insurance. (See attached articles on key Australian social insurance principles and trade with China.) I see all development, competition and the related attainment of sustainable development from the primary perspective of government, following Weber, Keynes, Beveridge, Galbraith, Wilenski and Hilmer. I often don't understand the working principles of market economics as they are practised by Australian Financial Review (AFR) journalists. In particular, I cannot understand the expected relationships between the concepts of supply and demand on one hand, and cause and effect, on the other. Are workers' wage rises the only causes of inflation? If not, what are the other causes? How does this relate to issues of supply and demand? How do Australian risk management services fit into global finance services in this context, from their financial perspective?

It seems crucial to understand insurance and related investment forces before establishing a greenhouse gas trading system unless the latter has no negative effect upon inflation. Can this be guaranteed? From my experience and study of health and injury insurance, the Australian government risk management ideal would be to design insurance and related financial services to achieve more healthy and sustainable environments, through more open and therefore effective, competitive management and investment of public and industry owned funds, to achieve key national goals. All other business costs are also ideally reduced as a result of designing these more openly competitive investment processes. This would also flatten the underwriting cycles which produce business volatility. This risk management perspective is consistent with Hilmer's perspective on competition, which was not implemented as intended. This is addressed later.

The above perspective provides business incentives which oppose those recommended by US economists such as Shiller (2003). His market driven approach to insurance appears to support unlimited protection for risk takers who are in a position to pay the premiums required for protection from their risk. The assumption of risk can also be contracted out freely to other investors in the market. Recent AFR descriptions of the causes of the US sub-prime mortgage crisis appear to show the problem of Shiller's approach to managing risk. It seems that US citizens were given housing loans they found they couldn't afford to service and the financial effects of their repayment default were partly borne by investors in mortgage securities. One assumes there were middle men all along the path, offering further loans to already struggling people and passing on the risk of their default to other

investors, always at a price. Can increasing interest rates control inflation if more people appear increasingly to love debt and the risk of their default can be passed on to ignorant investors? When it is said that the Reserve Bank raising interest rates is a blunt tool to fight inflation, what is actually meant and are there sharper instruments? The Treasurer and Shadow Treasurer should tell us. Stop the silence and reduce the purposeful confusion about financial affairs. How is Commsec determined to be different, as seen on TV? (I refer to the advertisement on SBS full of little, furry, feral animals and Americans.)

In general, the international market direction described by Shiller, does not appear to be one which can promote injury prevention or contain business cost for the majority, although the opportunity to continue to shift costs onto innocent bystanders may please major risk takers or those who are comparatively well informed about the market and also cushioned against it. This is not the large majority of Australians, who are also the electors of government. In the same context, please note that I am sick of rich organizations, whether private or public, which use politicians as speakers, but then charge entrance fees which only the rich or those relying on an employer to pay their way would normally contemplate. Taxpayers are caught twice by this unless the conference papers are openly available. I am generally fed up to the back teeth with education for only the comparatively rich at public expense. It is woefully short-sighted and expensive. Tell that to the Institute of Public Affairs of Australia (IPAA), and the rest of them following suit.

## **2. Pursue government, market and community goals according to broadly scientific principles, which also requires more openness**

Putting aside the opportunities for workers to put wage increases into their superannuation savings instead of spending, I have almost perfect ignorance about inflation. Nevertheless, my submission is primarily a discussion of how to take a hard line approach to fiscal discipline, which is the first point of the Prime Minister's Five Point Plan to fight inflation. I assume fiscal discipline depends upon clear financial accountability. I also assume the primary national goal is to obtain sustainable development and human rights through construction of a freer market and that these goals have been socially determined, rather than handed down by God. I further assume that goal attainment requires consultative and related scientific approaches to solving socially identified problems, followed by continuing evaluation of the outcomes of actions taken to provide solutions to them. Government, the private sector and communities can contribute to triple bottom line accounting – financial, social and environmental, in this context.

From the above approach, which is ideally guided by regional communities, in partnerships with government and industry, the first and fundamental necessity of a hard line approach to fiscal discipline is for government and all other communities to attack all legal monopoly and related feudally driven practices, because their principles are highly unscientific. Laws and contracts must have clear aims and key terms must have definitions if a more scientific approach is to be taken to all production and competition. This is equally necessary to help free the market from the feudal idiocy of the court process and its wilfully ignorant assumptions. All in the market are currently self blinded by legal privilege and related feudal expectations that suppress or hide the truth as a matter of course, in the immediate interests of all potentially trading and disputing parties. This

provides ignorance for all and nothing like the perfect information which is required for perfect competition. Capitalism and science developed together to produce democracy, which seeks to put the people first. Lawyers are a powerful, rich and dominating relic of a dysfunctional feudal era, before the European Enlightenment and dictionaries were invented. The latter first presented the common classification systems necessary to support scientific activity, which lawyers have not yet adopted. Is the legal monopoly inflationary? I can only guess. I know it's full of expensive rubbish and they want more.

### **3. End legal privilege which prevents markets trading more openly, scientifically and freely**

A privilege is a right to resist disclosing information that would otherwise be ordered to be disclosed. It commonly covers the confidential communications passing between a client and his lawyer in civil or criminal courts, but is applied far more widely throughout Australian society. In chapter two of the discussion paper on Client Legal Privilege and Federal Investigatory Bodies (2007), the Australian Law Reform Commission first presents the underlying rationale for client legal privilege, which is *'that the protection of the confidentiality of communications between a lawyer and a client facilitates compliance with the law and access to a fair hearing in curial and non-curial contexts, thereby serving the broad public interest in the effective administration of justice'*. This first premise appears to be highly contested, as reflected in the report discussion of legal judgments. Views about whether the requirements of client legal privilege are protective or destructive for society and the individual appear strongly split and do not appear to be testable, because of the privilege itself and all the attached and related feudal behaviours of the court. The existence of client legal privilege gives lawyers the authority and the duty to hide the truth from the court. No scientific judgment can be arrived at on this basis.

For argument's sake, I assume the reverse of the ALRC position, and believe that *'the protection of the confidentiality of communications between a lawyer and a client mainly facilitates non-compliance with law, thereby undermining the public interest in effective administration to obtain the goals of society and individuals, while instead increasing complex inconsistency, opacity, tardiness, opportunity for wrongdoing, and all related costs'*. I take this position primarily on the grounds that although the lawyer holds duties to the client and the court, the interests of the client will normally win out in any competition, because serving the client's interests immediately generates the lawyer's fee. The court is unable to check any legal behaviour on reasonable, as distinct from feudally driven grounds. Like the economist, I assume that individuals are normally driven to maximise their pecuniary interest. Like the economist, I also believe that perfect information is necessary for perfect competition, and so assume that the legislated secrecy inherent in the concept of client legal privilege for individuals hinders this. I claim my initial premise is more logical and has broader professional support than the alternative premise of the ALRC. Those who seek free markets should logically adopt this premise, rather than the ALRC reverse. Goals of openness and truth rather than justifications for secrecy and lies, provide the basis for scientific activity. Feudal culture is secretive, lying and aggressive, rather than scientific. Can it produce good people? (That is mother's job.

Feudal and academic elites appear to think we do it best if kept comparatively narrow. This can be changed through better communications development, as I discuss later).

#### **4. Deal with market asymmetry through using government to generate more informed markets and communities which provide more information and debate in order to agree on common direction**

Perfect information is necessary for a perfect market. There may be considerable asymmetry of information and therefore of power in a market, which is why democracy produced the term 'consumer' in the twentieth century. Financial service consumers (users) are often people whose ignorance of the seller's capacity and/or product may mean they need protection as a result of his more broadly and expertly informed potential for self-interested action. One has good reason to trust a doctor, because there have been consequences for medical practice if the medical consumer (patient) dies unexpectedly. These medical failures improved professional performance through encouraging a more effectively scientific approach to the body (as distinct from to the mind, which is socially constructed). The grounds for trusting any financial advisor are much more opaque. I cannot understand them and the way they look at money. I do not trust that they have the knowledge, interest or capacity to put my interests first. I do not believe they will show me all that they are doing. Their dealings seem to me more like manipulative gambling with others' funds, pursued on their own behalf. This is not scientific activity to me.

This problem of mistrust may be fixed through a Nanny State which ideally sees a primary goal of government as helping everybody to communicate their knowledge and feelings more clearly and accurately, so that all the identified global problems can be worked out more scientifically through better informed actions, whose process and outcomes may be reviewed, preferably through continuing open communication processes, in larger regional and community based contexts. Sydney Lord Mayor, Clover Moore, seems an early model performer, in this embryonic freer market context. The ideal communication approach appears synonymous with the operational goals of a perfectly informed free market. The Australian Bureau of Statistics and related social and environmental science classification systems will also need to play an increasing role in assisting development of scientific understanding. Australians will then be able to work everything out together more effectively, under the broad guidance of the sustainable development directions of UN Conventions, to which we subscribe. Is this approach to law too clear and simple for those people who have achieved their status and success from serving sectional interests which have thrived on fostering complexity because one can always make money by hiding information and bamboozling people, as well as by chopping them up? I guess so.

In the modern international context of the United Nations Declaration of Human Rights and the related international pursuit of sustainable development for all, everybody should logically try more scientific approaches to doing everything in future, including business. Within this guiding international framework one ideally investigates and judges situations broadly and flexibly, guided by comparative historical, economic and other environmental evidence. Angela Ward's article entitled 'Business must be involved', in the Australian Financial Review (AFR 1.2.08, p. 75), argues human rights should logically apply to

organizations as well as to individuals. However, it would be cheaper and more sensible first to ponder whether human rights are 'inalienable' (i.e. God given) or 'forged in struggle' (i.e. dependant on historical development which has increasingly favoured the broad masses rather than just rulers and their privileged elites). I think the view that rights are socially constructed rather than given by God is more historically accurate, empirically demonstrable and also logical than the view they are inalienable. Mine leads to the further view, for example, that many religions may have varying views and practices, without meaning one necessarily has to pick God's Winner and rank the others behind. Some may believe in One True God and others may not. One should just question how all perform in the ideal government aim of seeking to serve and represent all people.

While the scientific approach seeks to understand and improve the world, the lawyer remains a comparatively narrow, ignorant, feudally driven, ideal interpreter of the legislative Word, protected by an occupational monopoly which reigns supreme. It seems to me that as more democratic government has now relieved Australian Attorneys' General of the primary burden of being defenders of the legal monopoly, they and their Shadows may logically be everywhere, following God. On the other hand, following and challenging his former master, Freud, Jung thought man must everywhere come to terms with his Shadow to become spiritually whole. I agree with the latter perspective, which is why I ask Wayne Swan and Malcolm Turnbull to stop blaming each other's government for inflation, and tell us instead exactly what causes it and what can be done. We have understood wage rises cause inflation since 1974. What else causes it? How are all these problems fixed? The Treasurer and Shadow need to get together and guide us clearly. Surely they know. If not, we seem likely to be in trouble and Australia without direction.

As I understand it, Work Choices legislation was designed partly to reduce the problem of inflation by expanding wage differentials, through the further release of market forces, after a history of centralised wage fixing, which drove wages up and caused inflation. However, the impact upon inflation of those operating in financial, insurance, property and business services is more opaque and requires more investigation. This is imperative in the national interest, as all communities and small businesses in Australia must depend, as organizations and as individuals, upon the consumption of finance, insurance, property and business services. For example, some Australian councils recently lost their rate papers' money by ignorantly investing it in the sub-prime mortgage market. Are councils fit to manage investments? If not, what are better alternatives? This is one question of many. As individuals as well as communities, all our fortunes must often rise or fall as a result of our borrowing (purchasing) the money to conduct our affairs, as well as because of marketing the goods or services which we may produce with our borrowed money. From an ideal free market and related democratic perspective, Australian finance, insurance, property and business services must ideally be designed in the interests primarily of communities and consumers, followed by producers and then investors, not in the reverse order. This is discussed later in regard to housing policy. The reverse situation, where the interests of investors drive the market, appears to be a principle indication of market capture, where small borrowers and investors may be manipulated, rather than served. What is going on in finance, insurance and business services? Lift the veil and penetrate. (I am just a woman.)

## **5. To control risk, understand the potential relationships of science, industry, sustainable development and free market pursuit better**

From a public interest perspective, a clearer, more scientific and therefore practical understanding is necessary in order to design better coordinated government policy, legislation and contracts. This is also necessary to construct more competitive markets and bring about sustainable development. Government should also give markets more scientifically, broadly and openly designed performance incentives, in the interests of service consumers and related communities nationally and internationally. Investors' interests require consideration in this context. Broadly scientific, consistent and open, valuing approaches for intellectual property and all related services are also necessary to achieve sustainable development and for cutting dysfunctional professional and bureaucratic cost. I discussed the latter cost issues in previous submissions to this inquiry.

From the more scientific, public interest based perspective outlined above, legal inquiries may be worse than an expensive waste of time, as is shown by the report of the recent Australian Law Reform Commission (ALRC 2007) inquiry into Client Legal Privilege and Federal Investigatory Bodies. Lawyers have historically made their living from increasing the complexities created by the doctrine of client legal privilege, and the ALRC appears to recommend much more of the same. If the ALRC are the legal reformers, I would hate to meet the conservatives. In addition to other feudally driven faults, such as not using dictionaries to define vital words in legislation, ALRC lawyers appear incapable of standing outside the legislation upon which they are supposedly providing discussion, to examine it as a social construct which may need changing from a public interest based perspective. For one of many examples, Question 1-2 of the ALRC Review of Privacy Issues Paper No. 31 (2006) on the Privacy Act 1998, essentially relates to whether a cause of action for breach of privacy should be recognized by the courts or the legislature. Chapter 1 reads like a fundamentalist Christian review of the Bible, in the sense that the law itself is not seen as the product of any broader social environment. Undertaking an inquiry whilst being apparently blinkered to the social construction of the act which is supposedly under inquiry is not an intelligent approach to problem identification and solving. Neither do the writers take the simple step, made possible by the use of any dictionary, of adequately defining privacy or saying why it may be considered valuable. Yet scores of legal recommendations are made, as is typical of ALRC productions.

One cannot do much about controlling any financial risks, especially those which can easily be passed on to others, until one clearly understands the institutions of the market, their relationships, the incentives which spring from these relationships and what these related institutions and individuals are likely to do as a result. God knows who these are. For example, in spite of closely reading ALRC Issues Paper 32 on the Review of Privacy-Credit Reporting Provisions, I cannot understand why credit reporting agencies exist and exactly why their functions are deemed necessary as middle men between any borrower and lender. It seems logical to me that the more organizations, (such as credit agencies) which are involved as middle men in any loan related transaction, the greater is the likelihood of wrong information being provided and breaches of privacy occurring, along with other kinds of information misuse and cost accumulation for both the borrower and

lender. Why is there a need for the credit reporting agency middle men who apparently stand between the borrower and lender? What has been their evolution?

In Recommendation 2 of the Parliamentary Joint Committee on Corporations and Financial Services Report (2007) entitled 'The structure and operation of the superannuation industry', the writers suggested that Treasury should conduct a review of laws and regulations governing superannuation to identify how they may be rationalised and simplified. I pointed out that key assumptions, definitions and industry descriptions and relationships need to be logically addressed before effective discussion of the simplification of superannuation law, as recommended in Rec. 2, is possible. The writers particularly need to describe the trustees, including their principle aims and relationships, before anybody can make sensible policy. For example, any future inquiry should address the aim and related rationale of requirements that a superannuation fund or any other financial institution should be managed by a trustee, 'at arm's length'. When is a separate trustee necessary and why? What exactly should the role entail? The report constantly refers to 'the industry'. This and other key terms and relationships need clearer definition. How difficult will it be to find out? (See more on adventures in superannuation later.)

## **6. Adopt more institutional economic and related scientific analyses**

All financial services should ideally be defined, designed and investigated by government from the perspective of the interests of all Australian consumers, community members, businesses and mum and dad investors, such as retirees like me and similar members of other communities. It therefore infuriates me that financial information is so unavailable or opaque, especially if it is my money that banks or other funds might be holding. Many more institutional economic and related social analyses, such as those which are normally undertaken by the Productivity Commission are required, in my opinion. The NSW Premier is an admirer of J.K. Galbraith, the popular writer and economic institutionalist disciple of JM Keynes, and so am I. In contrast, my daily reading of financial affairs in the AFR makes me increasingly confused about market operations from any perspective, let alone that of the simple masses of ignorant mum and dad consumers and investors, to which I belong. To be fair, they appear to be getting better. I hope they can keep it up.

For an example of a related kind of problem in financial journalism, see 'New game for all the players' (AFR, 9.1.08, p.4) by Laura Tingle. In it she says that if by speaking out against the ANZ bank about raising interest rates, the Treasurer persuades voters that he has some influence, he undermines the apparent independence of the Reserve Bank's interest rate-setting process and sets a rod for his own back. From any scientific, consumer or related evidence based perspective, I assume this only occurs if the Treasurer's views appear to be wrong but the bank still acts upon them. Tingle and many other financial journalists seem to mix with too many lawyers and others condemned to be self-blinding and dumb feudal ideologues. Are Australian Reserve Bankers also infected?

The editorial, 'Federal powers can cut both ways' (AFR 22.3.07) stated that Comcare and state workers compensation schemes should compete over premiums and benefits and redouble their weak efforts to offer a nationally harmonious scheme to national employers. In fact, the logic of this position involves insurers driving premiums down by cutting

injury prevention services and rehabilitation benefits, which undermines the fundamental purpose of the scheme. (Moore's recent film showing US health care insurers rejecting consumer claims for medical treatments, in an extremely costly and bureaucratic system, demonstrates a similar problem.) The direction recommended by the AFR editorial means that competition between insurers will promote a return to the application of the 19<sup>th</sup> century principles of the common law, which US and Australian experience shows have uncontrollable but very expensive results. Health care and related third party insurance funds which are privately owned are not designed to maximise the benefits to health service consumers, as is clearly seen in all international health service data which shows US populations having poorer but more expensive health care than Europeans or Australians. Competition needs to be designed to serve consumers and sustainable development, not investors. (In later discussion I guess that Australian housing development also has badly designed and investor driven incentives.)

In regard to workers compensation and related third party injury insurance schemes, the court process provides no data for effective premium setting, which also undermines good management of all work and welfare systems generally. Australian historical experience of workers compensation schemes shows that it would be better to have Comcare *administration* privatized, with the funds absorbed under national industry and government *ownership*. All related workers compensation administration could then be managed openly and competitively, in order to identify their comparative performance outcomes, in relation to injury prevention, rehabilitation and fund investment, on an industry basis. Why give industry and government funds away for private sector insurers to reap the benefit of their investment, while they compete to reduce premiums and benefits, only then to see huge costs added to the scheme by courts? In the NSW WorkCover fund management model, premiums can be reduced by handling risks and injuries better, rather than by passing their costs on to innocent bystanders, through a process which has often sent insurers and others to the wall, while promoting business cost and volatility. Was the editorial writer of the AFR a lawyer? They are taught trash, to rule.

## **7. Implement the competition policy that Hilmer and Heads of Government wanted**

The recommendations of Hilmer's report to Australian Heads of Government about his independent committee of inquiry into a national competition policy would have led naturally to sustainable development and triple bottom line accounting if implemented properly. Unfortunately, they were lost in translation to the TPA instead and to the Australian Competition and Consumer Commission (ACCC) which administers it. The Hilmer Report defined competition as, '**striving or potential striving of two or more persons or organizations against one another for the same or related objects**' (1993, p.2). He wrote:

Competition policy is not about the pursuit of competition per se. Rather it seeks to facilitate effective competition to promote efficiency and economic growth while accommodating situations where competition does not achieve efficiency or conflicts with other social objectives. These accommodations are reflected in the content and breadth of application of pro-competitive policies, as well as the

sanctioning of anti-competitive arrangements on public benefit grounds (1993, p. xvi).

Hilmer and Heads of Government clearly saw competition as striving for goals which are not necessarily monetary, such as societal fairness, health and environment protection, whereas the TPA generally does not. The former is the approach to competition which is necessary for free trade and all related sustainable development. However, to implement Hilmer's recommendations, the government amended the TPA in the context of its original, prescriptive approach to legislation, in a conceptual world where competition is not defined, and which is inhabited by traders, not consumers. The latter concept was introduced separately, in yet another addition to an increasingly illogical and expensively implemented piece of legislation. The prescriptive legal approach appears generally unable to value conceptual clarity and consistency or the collection of data to assist service delivery and all related requirements for injury prevention, rehabilitation or cost containment. Risk therefore cannot be managed. Hilmer's recommended competition policy principles should be enacted into new legislation and all earlier, related legislation should be reviewed and repealed. This was the approach when state occupational health and safety acts were introduced. Why not try it again, rather than seeing the ACCC and the concerns expressed by Chief Justice Spigelman grow. We need to manage risk better.

## **8. Address the planning concerns of local councils nationally**

In my view, the concerns raised by 85 Councils from across NSW whose members recently rallied to oppose proposed changes to the NSW Planning System are most logically treated first in a coordinated national, consultative manner, by the Council of Australian Governments (COAG). The treatment should also aim to provide all Australian services more scientifically, effectively, cheaply and sustainably. A recent newsletter (2.2.08) from the Lord Mayor and member of NSW Parliament, Clover Moore, states that councils are calling primarily for an efficient development and approvals process, which is not undertaken at the expense of heritage, sustainability and the democratic right for input into the future of the neighbourhood. Who would deny such apparently reasonable claims? However, they must be implemented from broadly scientific perspectives to be ultimately effective. The alternative is for greater community division, and conflict, driven by the powerful desire for market advancement and its related legal powers. The City of Sydney Draft Ecological Sustainable Development Control Plan 2007 usefully appears to begin the required planning process, but I think broader consideration needs to be given to its contents; to how it is expected to be used in the field; and by whom.

Councils are very concerned that NSW plans to limit monetary contributions to councils from developers will prevent the latter from providing local facilities and services. They also say these development contributions provide only a fraction of the cost of infrastructure needs. In my view, housing development is ideally discussed in the national context of broader infrastructure development, as well as locally. If councils are not ideally equipped as investors, as I suspect, how can funds be managed better? In my view such issues should also be discussed by COAG, the Productivity Commission and others.

## **9. Review unscientific planning approaches and treasury requirements**

State planning requirements must be better coordinated with Commonwealth and local plans to achieve sustainable development, effective public/private partnerships and triple bottom line accounting, as I argued in a submission on the NSW Department of Planning discussion paper, 'Improving the NSW Planning System' (2007). The complex, insufficiently explained, apparently unjustified but voluminous requirements of the NSW Treasury Gateway Review System Workbooks appear to pose related problems for national investment and development in this context. The NSW Government procurement policy requires their completion for the procurement of infrastructure, information technology, property and goods and services. In my experience, read them and weep.

All service consumers need more scientifically consistent and efficient planning approaches. For example, one wonders how and why the NSW Department of Planning define its proposed new project categories as being 'regional significance', 'state significance', 'local significance', 'strategic significance' and 'complying'. Without clear supporting explanation of why these have been chosen as principal categories and what is required for project allocation and treatment under them, they appear unlikely to assist consistent, confident, classification and related decision making to aid sustainable development. ANZSIC and more scientific categorization systems appear more likely to provide for consistent treatment of development proposals and all related activity. However, the paper's recommendation for e-Planning development (p. 6) seems excellent to me because this ideally forces all government and related community stakeholders to focus on an appropriate classification, information and associated treatment system for all land and related project development proposals, in order to provide those doing planning and construction work and all others in the community with timely, effective and fair treatment by councils and related regulatory bodies. Can it be nationally defined?

David Hutton, the CEO of Lend Lease Retail and Communities APAC, wrote to the Treasurer (28.9.07) that his organization believes affordable housing and sustainable communities can best be delivered in large scale projects and that this will result in the most integrated outcomes and most efficient use of any government subsidy. Lend Lease calls for clear identification of broadly expected project outcomes and a related clearer identification of major project risks and accountabilities. Why not work with people like that to attain the goals of improved services and all related sustainable development and to bring in triple bottom line accounting – with clear financial, social, and environmental goals? In a similar context, I was struck by the apparent practicality of the housing needs identification and planning work undertaken for Kiamma Council and community by Judith Stubbs as shown to an Australian Housing and Urban Research Institute (AHURI) workshop for local councils. Nicole Gurrans' overheads on 'Climate Change and Environmental Planning: Where Do We Build Houses?', also seemed good. Unwanted family and community dislocation is also a key problem that social mix and key worker strategies should be designed to prevent, as Judith Stubbs pointed out. Services and

products of AHURI, Shelter and many others concerned about more affordable and sustainable housing may be much more broadly useful and deserve to be better identified.

A former employee of Lend Lease first told me that apparently unsustainable, free-standing three bedroom houses, far from railways stations and other public transport are usually cheaper and less trouble for a developer to build, through subcontractors, and for purchasers to buy, than other kinds of housing. How can communities, government, and developers arrive at more sustainable and affordable construction near transport and other amenities – at lower cost? I really have no idea. However, such issues will need to be considered very carefully if a greenhouse gas trading system is going to be introduced.

#### **10. Define key terms through current WorkChoices debate where relevant**

The current context of discussion over new WorkChoices legislation affords an opportunity to check the adequacy of many terms from a more scientific perspective and to define the results of this investigation in legislation or contracts. The Australian Industrial Registry (2006) indicates that WorkChoices legislation introduces a new, national system of industrial relations mainly based on the corporations power of the Australian Constitution. As such, the new system is apparently designed for employers known as constitutional corporations. Apparently, to be a constitutional corporation, a business entity must be either a trading or financial corporation or both. What are the ideal requirements of both conditions? Business entities that do not fall within the definition of the constitutional corporations have apparently been found by the courts to include partnerships; unincorporated associations and sole traders. Are these the same people who were expected to conform either to national standards or mutual recognition as part of the construction of national competition policy in the early 1990s? I guess so. If they are not currently engaged in trading or financial operations what exactly are they doing and how are they classified for ABS and related key industrial purposes? I have no idea. However, clear definitions, classifications and related scientific understandings of how businesses ideally operate are vital for better management of all affairs, except perhaps the lawyers.

Related definitional problems are found in other areas. For example, Macquarie Bank financial definitions use EPS, ROA, ROE, IFRS and a range of other acronyms without any explanation of what they stand for, as far as I can see. Reading the NSW Department of Planning discussion paper was made more difficult by the fact that there is no glossary for the following acronyms, which are each only explained in full once in the text, but occur many times throughout it, often together: IHAP, LEP, PAC, JRPP, SEPP, SEPP1, REP, DCP, DA, CIV, CDEP, EPEP, BCA, BCP. This was made even more confusing by the absence of sufficient clear explanation of the organizational history, aims, functions and relationships which they represent. I gain the impression that NSW planning and development are characterised by an enormous amount of anxiety and confusion.

## **11. Invite industry superannuation funds to become guiding mother ships of financial services reform and the provision of better incentives for more affordable and sustainable housing**

Probably like most Australians, I have mainly sought to benefit from housing as a consumer, by living in it, rather than benefiting financially, by investing in it. However, as a householder I have formerly also been the owner of a rental property which I recently sold to help my daughter buy her first home. As a self funded retiree and former university employee, I currently invest in property as a UniSuper member.

According to the 2007 UniSuper Report to members, only 10% of the UniSuper fund is in property. This seemed low to me, as I also noted that property appears as an apparently larger sized category in the Capital Stable; Conservative Balanced; Balanced and Growth investment baskets described in the report (pp.12-13). I emailed UniSuper to ask how this apparent anomaly, at least to me, was explained and how the level of risk in each of these different investment baskets is estimated. I asked how property in Australia is valued as a comparative investment, compared with property in other countries, e.g the US or China. I asked how a choice is made about which property to invest in. I wanted to know this as I am seeking to understand what an investment policy to promote affordable housing and sustainable development should be like. (I do not have a reply as yet.) However, UniSuper seek to communicate more clearly, and performs comparatively well in this, in my experience. In February 2008, it advertised some new analytical and investment positions, including Senior Analyst – Property, which may be an interesting new start.

Report Recommendation 6 of the Parliamentary Joint Committee on Corporations and Financial Services Report (2007) entitled ‘The structure and operation of the superannuation industry’ was that trustees of superannuation funds should publicly tender key service provision agreements. Labor members thought superannuation has been ‘governed by the trustee system in a sound and effective manner’ and were against the recommendation because it appeared to imply broader, ‘impractical and unnecessary interference in the internal operations of business’ (p. 199). I disagreed strongly. For example, if UniSuper tendered key service provision agreements publicly, this would encourage the market through educating it first - a highly appropriate action for a university superannuation fund. The underlying assumptions regarding the necessity for structural separation of the superannuation fund and its trustee to gain good management practice are unclear in the report and the historical evidence that it presents draws me to conclude that the normally expected separation of a superannuation fund and its trustee is an undesirable regulatory anachronism which may now increase scheme cost and reduce both transparency and accountability, especially in opaque and complex financial markets driven mainly by the power of US market interests. More investigation is needed.

My recent personal experience as a UniSuper member and investor and as a former customer of MembersEquity Bank (‘The Super Funds Bank’) was that establishment of trustee relationships appeared to force many unnecessary legal, financial and related mortgage valuation costs on consumers of loan products. Why was any relationship with Perpetual Ltd necessary when I took out a loan? This appears to reduce transparency and related legal and financial accountability while increasing cost to loan customers. Housing

developers say government bears much of the responsibility for increasing housing prices as a result of its land supply decisions; excessive fees and charges and excessive controls. That is also my experience as a borrower of comparatively small amounts of money.

## **12. Spend taxpayers' money more scientifically, to produce more affordable and sustainable housing**

The recent National Affordable Housing Summit noted that housing is becoming increasingly unaffordable and decided that the Commonwealth should allocate at least \$200 million per annum towards the development of a national Capital Grants program and Affordable Rental Incentive Scheme, rising to a total of at least \$500 million per annum in the fifth year. Commonwealth funding is available for an Infrastructure Fund to support the building program with \$250 million available in the first year, to grow to \$500 per annum by the fifth year ([www.housingsummit.org.au](http://www.housingsummit.org.au)). However, it seems the issue of what causes rising housing costs is far from clear and that as housing affordability has deteriorated, housing price growth has also strengthened. Robert Harley, writing for the AFR, finds this paradoxical (AFR, 6.2.08, p.11). I don't, as long as one is content as a consumer to take on debt, or as an investor to guarantee debt, and then pass on risk.

When Peter Urban, a former chief economist at the Dept. of Foreign Affairs and Trade wrote the following recently, he put his finger on a problem I realized I and many others shared. He said:

'If you want to fix a problem, you have to understand what the problem is. If you don't, you could make it worse. 'While everyone agrees there is a housing affordability problem the fact is, there are actually two problems – a mortgage affordability problem for many home owners and a housing cost problem for many people wanting to buy their first home' ('A super cure for mortgage defaults', Australian Financial Review, (AFR 14.8.07, p.63).

I assume the role of government in regard to housing is ideally to make it easier for all Australians to find a suitable place to live in. However, housing purchase has become increasingly expensive for people since 1960, and rising household income has not kept pace with rising housing price, especially in the past two decades. Milligan's research for AHURI argues that housing policy which seeks to reduce the housing affordability problem should be mainly targeted to making housing more competitively priced for those living in the lowest 40% of the total population of Australian household incomes. Many such people pay over 30% of income on rent or mortgage payments. Some experience housing stress as purchasers and others as renters.

I have previously argued that the interests of all Australian service consumers are best conceptualized in regionally based, industry and community contexts and by related analysis of their constituent parts. I think this is necessary to gain more affordable and sustainable housing as well as cheaper and more effective financial services. However, this perspective appears to be the reverse of those economists whose analysis is based primarily on supply and demand and related investment strategies. To illustrate the different approaches which derive from these different policy emphases, I discuss below a

recent article by the economist, Ross Gittens, entitled 'Renters can't home in on jackpot' in the Sydney Morning Herald (19.9.07, p.13). Gittens argues that by owning one's own home one is escaping tax, which those renting and those who rent to them must pay on forms of income they derive by putting their money elsewhere, rather than into the ownership of their own home. Gittens would therefore like government to tax home ownership, which he also laments is a politically unacceptable position.

I would argue that buying a house is not usually like buying shares or rental property and should not be seen so. The difference between buying the former and the latter, is that the latter are supposed to provide ongoing income, whereas when one buys a house to live in, one is usually also paying out large sums of money to a bank on a continuing basis for the privilege of doing so. I think the main reason that most people, and women in particular, want their own house is so they can feel more secure about providing comfortably for future children and their old age in a comparatively risk free environment. I think it is the job of government policy to promote competition to develop sustainable housing in a way which is also designed to assist the comparatively disadvantaged 40% of the population, whether they are purchasing or renting. I have no idea how taxation should support this.

Gittens says, 'if we were to remove the tax-preferred status of owner-occupied housing we would significantly reduce the demand for bigger and better housing, thus lowering its price and making it genuinely more affordable'. This argument appears to rest on the assumption that supply and demand are the key determinants of housing price, rather than that the labour and related charges increasingly embedded in a house primarily determine its increasing price. When one 'owns' one's own home one is usually also paying regular interest to a home loan lender. Surely this costly process increases the value of the house over time and if home owners were also paying tax, this would additionally add to housing prices over time, making life even more difficult for many? Does supply and demand predominantly account for housing prices, or is it the embedded costs in housing? Gittens argues that 'increasing the first home owners grant, cutting stamp duty, introducing shared ownership schemes or a subsidised savings scheme are all poor policy because competition for houses pushes all prices higher'. I think that these measures are all very different from each other and cannot be lumped together as bad on the untested, 'pie in the sky' assumption that supply and demand factors are the overwhelming determinants of housing price. Are others as confused about these issues as I am?

Gittens says that 'ending the tax-free status of owner occupation would constitute a big transfer of wealth from the older generation to the younger generation – from existing home owners to would-be home owners, present and future'. But this would only be so if government decided to spend money on the young, instead of the old. There is nothing automatic about such a generational transfer. For example, the old seem to provide an extremely fertile ground for intense and continuing, medical practice which is highly subsidised by government, (as is sensible). However, the young today may be paying off enormous debts for higher education. When I was young there was no Medicare system but tertiary education was highly subsidised by government. Tertiary education should be designed and delivered in a different way, which no longer ignores the full educational potential of putting openly available curriculum on TV, computers and videos, as well as

in books. If this was supported with employment mentoring, education costs could be cut to much less than they currently are and content quality, being open and flexibly delivered, would be better. Skills crises could be solved much more easily than at present. Australia's global situation means there are likely to be many opportunities for expanding economies of education production scale. In my opinion, such issues need to be taken up with industry and others by ministers for communications and education.

Just as American governments have not helped Americans deal effectively with growing health care problems, it seems Australian governments have not helped solve the problems of Australian housing for millions of people, at least in recent years. New sustainable development requirements for control of greenhouse gases and related trading will also require more competitive and sustainable approaches to regional policy and all related industry and environment development. On current evidence, future funding or in-kind contributions for land purchase, housing and infrastructure development need to be more clearly and broadly justified. Otherwise they seem likely to increase the divide between the wealthier 60% of the population and the poorer 40%. Poor housing decisions add to greenhouse gas emissions and other problems related to air, land, and water degradation, including loss of biodiversity. Government and Shadows should collaborate and put forward clear solutions to all these problems. Adversarial politics and secrecy waste time.

Thank you for the opportunity to make this submission.

Yours truly

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