

20 January 2002

Dr. Howard Johnson

NSW

Job Network Review
Productivity Commission
PO Box 80
Belconnen ACT 2616

Dear Sir/Madam,

After 5 years of research it can be shown that the Jobs Network does not work for the benefit of the nation and in fact destroys human capital and thus value. What it can also be shown to have done is ensured the government's budget for servicing the unemployment problem remains intact and thus ensures the vast public and private bureaucracy for servicing this critical mass of unemployed is maintained and expanded. Logically to solve the unemployment problem requires new industry be created with growth into the medium and long term. But this means the vast bureaucracy then has to justify its existence and its vast, less than transparent budget. The choice is clear. There must be a critical mass of fodder to guarantee there is minimum threat to the public and private bureaucracy and their profiteering. New industry creation is not the priority. But a nation that has proven its inability to create new industry but is capable of creating vast bureaucracies is clearly going to maintain the bureaucracies.

Australia was the third richest country in the 1950's, falling to eighth in the 1970's and to twenty-sixth in 1999. The A\$ was US\$1.20 cents in 1966 and it is now at US\$0.50. The vast public expenditure on R&D, industry assistance schemes and so on over 30 decades correlates with these less publicly promoted data. This government requires a scapegoat for its failure to create the environment for the creation of new local industries and thus the reduction of the critical mass of unemployed.

As the attached items show, the hunting down of dole "cheats" is a great public relations exercise that both status quo political parties can always fall back on because it is always maintained as a critical mass for a range of convenient purposes.

The only thing that holds Australia back is its political status quo entrenching their power and control, and the vast wealth destroying bureaucratic infrastructure.

For years now there has been a conspiracy of silence over what the two parties will do to prevent unemployment from rising and what they will do to reduce it from the critical mass level. Quite simply the benefits of having this dependent critical mass are considered far greater than not having it. Although human capital, entrepreneurship and the long term living standards of the nation are sacrificed for short-term political expediency.

By contrast the attention paid to the abuses and corruption that has become corporate welfare are avoided and in fact deliberately kept out of the public domain. The reason

the differences so blatantly exist are clear. Firstly the critical mass of unemployed (the fodder) sustain and grow the vast public and private bureaucracy and can be used for a range of benefits including as the lowest socioeconomic component of society a scapegoat for all of society. They can also resort to a range of criminal activities and thus encourage a range of spin-off bureaucracies that governments can create bureaucracies for, fund and service. It is universally recognised that once a bureaucracy is established it is essentially impossible to dismantle it. Always and at any cost they will prioritise protecting their empires and wherever possible growing them.

Instead of having the cream of Australia come out of universities to insufficient commercial opportunities because of the nations inability to create diverse industry, they must be absorbed into the vast publicly funded public and private bureaucracy. The choice is to either have them on the dole or have the lowest socioeconomic component on the dole. The cream, or the low socioeconomic group is the choice and the critical mass factor makes the choice clear. The low life becomes the critical mass of fodder that supports the vast infrastructure of bureaucrats and budgets to service it. The Ministers taking turns in vilifying the unemployed in one way or another whether as “job snobs”, cheats and parasites on society is a feature they are useful for to divert attention away from the fact the elected representatives are incapable of creating solutions.

(The fact they are all, or mostly lawyers is probably a contributing reason for this as this negative sum profession lacks diversity and in fact its membership does not tolerate it. But can tolerate creating a position where a barrister watches the ATO. An oxymoron. Logic indeed! They take care of their own.)

This excess of dependent unproductive (and counterproductive) bureaucracy also diverts resources away from entrepreneurship for example but also this is beneficial because it does not threaten the reduction of the critical mass and therefore does not threaten this enormous service industry (mainly ex bureaucrats so that the JN has mainly been a shuffle of public bureaucracy to private bureaucracy but the cost is still government funded.).

The fact that over 50% of males over 45 years old are kept out of the work force is also an example of the priority to keep a critical mass maintained. This particular category of dole dependent citizen is particularly easy to intimidate and manipulate. Being humiliated and embarrassed they will attempt to keep their plight a secret and avoid any confrontation with any stakeholder servicing their unemployed status. They are also very compliant victims because of this reason that generate a range of valuable statistics for the central, bureaucracies. The younger unemployed are too uncertain of their future to confront the political status quo and stakeholder bureaucracies in any way, so they too are also relatively compliant dependent statistics generators, including the worlds highest suicide rate. This is also what government finds a way of living off.

This is the destruction of human capital that the vast bureaucracy lives off while entrepreneurs cannot get funds for job creating enterprise. Again a vast bureaucratic network is in place that lives off the SRD and an array of other schemes that are meant to first and foremost keep the bureaucrats in jobs (for lifetime careers) and not prioritise diverse industry creation and development. (see the observations by Dr. Farber.) There are many new industries that could be created but for any entrepreneur the question is whether to do so without government assistance, whereby any success means continuing to a solution that bureaucracy does not particularly desire as a priority, or seek

government assistance and create more work for bureaucrats as they make entrepreneurial initiative dependent on their flawed decisions. The choice is clear and thus explains the entrenched dependence on rent – seeking in Australia and thus its lack of transparency. Bureaucracy is always a beneficiary. State and Federal politicians and their bureaucratic infrastructure are going to encourage more industry assistance simply because its to their benefit to have as much as possible to survive and expand their large or small empires as vested interest. As it is A\$16 billion a year and guaranteed to rise it diverts resources from local entrepreneurial initiative and the long-term benefits local effort has to society. But the long term does not contribute to short term political expediency so an array of dubious “ allocations” are sustained for quick fix public relations value, to the political status quo. This also has a spin-off in that kick-backs are made to the political parties and as say 1% of A\$16 billion a year, this adds considerably to the party coffers as a means to fund manipulation of the public and public opinion. There is every incentive then to keep the industry assistance rolling but a need to keep it secretive and lacking transparency and accountability. This is indeed what the theory would expect.

One of the main factors that give the game away for the need to maintain a critical mass of unemployed, is the fact that these bureaucracies servicing the unemployed have been in place for decades which clearly proves that one, they are now systemic and two, they are meant to perpetuate themselves, their budgets and their infrastructure and of course the critical mass of unemployed.

One of the aspects of hunting down the dole cheats, but one that cannot conveniently, by contrast, be used by the bureaucrats for the corporate welfare corruption, is the use of a large group of foreign computer programmers to develop data mining programs to facilitate the identification of potential social welfare cheats. These programmers are foreign nationals with incentives dangled in front of them to make sure they remain true to the mandarins who are implementing the hunt. Such as Australian citizenship and various other bonuses. This helps prevents any leakages into the public domain if they were local for example, where the strategy might become public and raise considerable unwelcome publicity. The central bureaucracy is innovative in their efforts to develop this monitoring tracking and especially statistics gathering IT facility, to boost their results and show to parliament their budget and systems need to be maintained because of their “ success”, and wherever possible their budgets expanded. Every effort is made to prevent any of this data becoming public domain that could be used by others to identify problems and find solutions, because of the nature of the capability which is highly intrusive, invasive and especially designed to perpetuate the bureaucracy and its solution as promoted by elected representatives. The comparison can be extended but it will be fully divulged in the public domain at an appropriate time.

The religious bureaucracies now being funded as JN stakeholders presents another problem in that they have now become massively funded by government and as profiteers have it in their various interests to also maintain the critical mass. The profits they now make are applied to their vast real estate and other tax sheltered real estate investments including offices that house various components of the public and private bureaucracy servicing the unemployed critical mass, and not to creating new industry. So the already entrenched unemployment service industries are now further entrenched in that no government is going to attempt to wean this extended religious bureaucracy off the

government funds that grow each year as ever more stupid self - perpetuating schemes are promoted as solutions. Solutions for the bureaucrats but not for the nation! Which has always been the main industry created and is the main one to be maintained. Dismantling it would mean throwing many public and private bureaucrats out of work, closing down offices that are rented from unions, businesses that donate to the parties, state and local governments, and the religious organizations, profiteering from the unemployment industry and getting tax shelters that the rest of the population, unbeknownst to them, are subsidising. The fact the head of the JN in government is an ex – priest is either a conflict of interest or jobs for mates, as the religious organisations are setup by a government clique, for their feed at the government trough. They never use their profits to create new industry but only to invest in tax-sheltered real estate that the rest of society must subsidise. More than double dipping and all in the name of doing gods work. Who is going to question such an alliance and its benefit to the nation?

As the almost 2 decades of attached articles show, there is a lot of activity that shows that bureaucrats and their cohort are flourishing and prospering but the unemployment problem persists. Logically it means maintaining the critical mass is the priority and when the beneficiaries are all considered the priority is confirmed.

An American historian describes it thus:

“For the politician or minister under modern conditions, a limiting factor is too many subjects and problems in too many areas of government to allow solid understanding of any of them, and too little time to think between fifteen minute appointments and thirty page briefs. This leaves the field open to protective stupidity. **Meanwhile bureaucracy, (the public and private kind like JN, SRD the big 5 etc) safely repeating today what it did yesterday, rolls on as ineluctably as some vast computer, which, once penetrated by error, duplicates it forever**”. (And is the basis for many careers.)

Like the political component bureaucracy has every incentive to keep it all rolling along whilst the public gets fed the unemployed fodder as the scapegoats. However it is also known....

“Elected representatives are elaborately briefed on matters which they do not fully understand. This is not meant to allow them to decide, but is rather to create the impression, and allow them to give others the impression, that the decisions are theirs. As the complexities of government have increased the people’s representatives have become increasingly dependent on this vast network of public and private bureaucracy. (The law profession, accounting, McKinsey etc. or the new class or more appropriately the negative sum game professions. And thanks to 38 universities an array of academics studying the socioeconomic “issues”, but remarkably unable to figure out a solution. Because without the critical mass they would not have security of tenure and something to get ARC funding for to study it.)

Maintain the critical mass of fodder at all costs.

The PC is also part of this as a beneficiary. Paralysis from analysis keeps many bureaucrats including academics fully employed but after decades it leads only to decline and then denial that it is decline. The case of the ICT industry is worth noting. On the one hand the PC states that the Telco and DTV industry should be open and encouraged because of its benefit to society and thus the nation now and into the future. However, when this government through the technology illiterate Prime Minister (and obviously

economically illiterate as the views about the A\$ show), publicly states that Australia doesn't really need to be an ICT producer but only a very good importer and user for productivity purposes, the PC conveniently comes out with a new report that states the same, and supported by the RBA. This is clearly a contradiction of the other two reports but of course no doubt the PC will have some explanation for this that is politically correct (appropriately initials, PC).

Also in 1997 this government was promoting that it was driving their claims on GDP down to 23 % and by 2001 it would be down to 20%. We now know is claiming upwards of 37% of GDP. This government, so keen to hunt down and scapegoat welfare recipients as it blatantly ignores corporate welfare recipients, is clearly full of hubris. The kick-back is too valuable to attack this wonderful sleight of hand that very few citizens are aware of although it corrupts SME's and listed companies and also undermines entrepreneurship.

An eminent American Nobel Laureate succinctly described the local culture thus: "Corruption distorts the functioning of an economy because it leads government officials to take actions that are not in the general interest. Corruption can even choke off economic development by discouraging honest entrepreneurs (*absolutely correct as can be shown*) and by sharply and arbitrarily raising the cost of doing business"... "Opposition parties have the incentive and ability to expose the misbehavior of the ruling party".

On the last count this eminent Noble Laureate is not quite correct because in Australia both dominant parties are the equivalent in the way they have perpetuated this culture and for the obvious reasons. They have the incentive not to expose anything but to perpetuate it. And of course the vast profiteering public and private bureaucracy including JN is in on it as each party comes and goes. Also one of the reasons Australian business rarely if ever challenges government in any meaningful way in terms of its waste and dissipation, (neutralising the productive efforts of others) is because so much of it is corrupted by a dependence on the political status quo and their bureaucratic cohort (like JN, SRD and the big 5 and more) reallocating taxpayers funds. In other words they have all become dependent or potentially dependent on rent seeking and to the extent it has become systemic. And also it naturally discourages honest entrepreneurial initiative and thus sufficient new industry creation does not occur. In fact, these mostly established businesses with such an established relationship with rent seeking in one form or another, do not tolerate true competition, which accounts for their inability to create new industry and so forth. BHP and its history is also another good example of this culture whereby it inculcates widespread corruption based on a vast management bureaucracy throughout a large listed entity with a culture little different from government bureaucracy and for the same reasons. And in both cases the political status quo can be shown to be using the process to get kick- backs to party coffers to remain in power.

Clearly to remain in power the status quo political parties must innovate to maximize their potential to do so, and to grow unproductive and counterproductive bureaucracy as an industry and job creating solution that also becomes dependent on the ineptitude of the elected peoples representatives. Naturally the priority to keep it all intact then becomes entrenched which is what the JN is and for that matter the PC.

A Nobel Laureate and internationally recognised expert on the subject:

“ Government bureaucrats, academics whose research is supported by government funds or who are employed in government financed ‘think tanks’, staffs of the many so-called ‘general interest’ or ‘public policy’ groups, journalists and a range others in the communications and advertising industry- are also amongst the most ardent preachers of the doctrine of equality.” But they are obsequious in their obedience to media owners and the political status quo. After all the choice will invariably be a hack on a regional newspaper owned by the same monopoly or a degree of power and independence as a politician or a politicians media manipulator. The latter has more appeal for many this cohort than the former, so they act accordingly and given that they are like the legal profession, in oversupply.

“...vast federal (*and state and local*) bureaucracy spread throughout the many government departments and independent agencies is literally out of control of the elected representatives of the public. (*A happy career state of affairs for any bureaucrat and JN is but one of many other large examples.*) Elected Presidents (Prime Ministers), senators and representatives come and go but the bureaucracy remains. They know where the bodies are buried. Higher level bureaucrats are past masters at the art of using red tape to delay and defeat proposals they do not favor; of issuing rules and regulations as ‘interpretations’ of laws that in fact subtly or sometimes crudely, alter their thrust; of dragging their feet in administering those parts of laws of which they disapprove, while pressing on with those they favor.” The canny minders and making careers out of it as the PC and the JN bureaucracy is now typically indulging in.

This Panglossian world where the other sign of the story is never analyzed and exposed and worse, tolerated, is wonderfully facilitated by the political status quo in close alliance with the media status quo.

Bureaucracy especially the Australian kind does not tolerate diversity of opinion in its ranks and only conforming clones are selected. The political status quo is likewise intolerant of diversity and thus mainly only accepts clones from a legal profession background into the fold. Combine this lack of diversity with an undiversified media ownership and their control of it through laws, and it is only going to be a media that conforms to the status quo. This alliance is facilitated by the politics and bureaucratic status quo ensuring the media monopoly profiteers as their propaganda machine. Thus vast sums of taxpayer money are reallocated to the media monopoly to manipulate public opinion and this also includes the JN, where advertising is clearly targeted against the unemployed fodder as they are intimidated and humiliated across the FTA media for example. This is subtle but powerful and again diverts attention away from the failed politically and bureaucratically inspired schemes that are supposed to be solutions but logically cannot be after decades, including the fact a solution would threaten their “industry”.

FTA TV owners are also investors in tax-sheltered real estate and never back into there own industry. They do not innovate nor create new industry or jobs but are happy to maintain their monopoly and profiteer from the nations growing problems. These few owners are also owners of real estate investments such as offices that house the bureaucracies that service the unemployed critical mass. So again the choice is clear for the political status quo and their vast bureaucratic infrastructure. The bureaucracies

cannot be downsized because all the critical mass has jobs because this would mean empty office blocks for the FTA TV monopolists. So the government funds their monopoly with huge allocations of taxpayer dollars to act as their propaganda machine. This is in the form of hundreds of millions of dollars a year for advertising that intimidates the unemployed and demeans them and thus makes it easier to manipulate them at the Centrelink and JN level. They also get massive funding for such dubious schemes as the GST. IN addition the FTA monopoly if given free DTV spectrum worth upwards of A\$4 billion plus a range of other open ended taxpayer funding to convert to digital FTA. All in addition to their profits going into tax sheltered real estate investments. They are not interested in industry and job creation but like the religious bureaucracies are only interested in maintaining the critical mass of unemployed, prospering off it and Australia's decline to 26th in the world on a wealth scale from third 40 years ago.

Increasingly a vast industry has evolved from having a conveniently humiliated and intimidated compliant dependent unemployed critical mass to use as a scapegoat also for anything and anyone else who wants one.

The tyranny of the status quo!

Clearly from any perspective the priority has never been a solution for the unemployed and as the recent events about refugees proves. This issue is continually given media coverage in spite of the fact there are almost 1 million citizens unemployed or temporarily employed who are the victims of an ongoing plan to maximise providing a service to them so a corrupted parasitic bureaucracy can make careers off that only a vast public and private bureaucratic cohort benefits from, and not the 1 million plus, or the nation of which they are citizens of. And because the media is controlled and will not bight the hand that feeds it then the state of affairs can be perpetuated indefinitely as politicians come and go.

This is not leadership of a nation but leadership by vested interest for vested interests. And clearly the PC is one of the vested interests. Minor but a vested interest nevertheless and prepared to also feed the hand that feeds it.

How could a nation during a period of such economic growth and prosperity regionally and worldwide, go from third to 26th in 40 years and also its currency? Where Argentinean's are protesting about their government devaluing their savings in US \$ terms by 30%, and yet the Australian government has overseen a similar decline in the A\$/US\$ rate during its "contribution", although Australians are manipulated to believe they are a winning economy. This is why the nation has declined from a first world nation to almost third world. The power of propaganda perpetrated by the status quo in a so-called democracy. A model that would make any tyrannical dictator chuckle at the irony of it.

Quite an achievement and worthy of a gold medal.

Yours Faithfully

Dr. Howard Johnson

Executive Summary

By any definition there is a complete lack of public accountability for State Government industry assistance in Australia. The disbursement of industry assistance is instead treated as a private commercial matter between governments and the business recipients of subsidies, loans, tax breaks and other 'incentives'. At a time when 'mutual obligation' is being imposed on the recipients of social welfare, businesses that receive public assistance are not required to disclose sufficient information to satisfy probity and public accountability requirements.

In 1996, a comprehensive Industry Commission report estimated that Federal, State and Territory Governments provided more than \$16 billion each year in financial and other assistance to industry, including subsidies, revenue forgone and market protection. This figure represents over 3% of Australia's GDP. Of the \$16 billion, almost \$6 billion was comprised of State and Territory Government subsidies and revenue forgone. In particular cases of assistance, subsidies can amount to as much as \$40,000 per new job created.

The present study found that estimating expenditure on industry assistance is an extremely difficult exercise, not least because there is limited publicly available economic and financial information about government assistance to industry in Australia. With the dearth of information on the extent of this assistance it is not surprising that there has been limited external assessment of the various incentive programs to date. It is alarming, however, that there has also been wholly inadequate internal government assessment of the economic and social contributions of the various incentive programs.

This study:

- examines the different forms of industry assistance provided by government in Australia;
- assesses the extent to which information is publicly available in relation to this assistance;
- outlines the criteria upon which assistance is made available;
- evaluates the monitoring procedures adopted by governments where assistance is provided.

The study focuses on the use by State Governments of financial and other incentives to attract new industry and investment.

Investment attraction

The study compares investment attraction with a private auction of real estate, where businesses are the vendors, and State Governments adopt a 'beggar thy neighbour' attitude, making secret bids of taxpayer funds. State Governments perceive this process as a 'battle' for new investment, where there are victors and there are the vanquished. This suggests a combative, as opposed to a cooperative or even a competitive, environment.

REGIONAL YOUTH UNEMPLOYMENT RATES, PERSONS 15-24 YEARS, AUSTRALIA, 1988-96

| RANK | REGION | STATE/TERRITORY | UNEMPLOYMENT RATE % |
|------|----------------------------------|-----------------|---------------------|
| 1 | Fairfield-Liverpool | New South Wales | 25 |
| 2 | Richmond-Tweed and Mid Nth Coast | New South Wales | 24 |
| 3 | Barwon-Western District | Victoria | 23 |
| 4 | Wide-Bay Burnett | Queensland | 22 |
| 5 | Illawarra | New South Wales | 22 |
| 6 | Western Adelaide | South Australia | 22 |
| 7 | Cipsoland | Victoria | 21 |
| 8 | Outer Western Melbourne | Victoria | 21 |
| 9 | Northern and Western SA | South Australia | 21 |
| 10 | Hunter | New South Wales | 21 |

(Source: ABS Labour Force and Centre for Labour Studies, figures rounded)

Wednesday, October 4, 2000, www.smh.com.au

IT labour shortage as local students miss out

Federal Government funding universities, nearly all, left the country on their completion. The report comes on the heels of this week's call by major business and professional groups for the Government to halt falling investment in new technology and innovation.

Many qualified Australian applicants cannot get into IT courses because foreign fee-paying students are taking up places at an increasing rate, says the report by the Centre for Population and Urban Research at Monash University. Of the 2,500 overseas students taking IT courses at Australian

universities, nearly all, left the country on their completion. The report comes on the heels of this week's call by major business and professional groups for the Government to halt falling investment in new technology and innovation.

The issue is also looming as important electorally, with Labor Party polling showing that the state of the tertiary education system is a major issue for parents.

Under intense funding pressure, the universities have dra-

matically increased the number of foreign students.

Australian employers insist that there is a massive shortage of IT professionals, and this shortage is likely to worsen, said Bob Kinnaird, one of the report's authors.

To meet the demands, the Government needed to spend at least \$25 million tied to extra places for local students studying IT-related courses.

Gerard Noonan and Alan Contractor

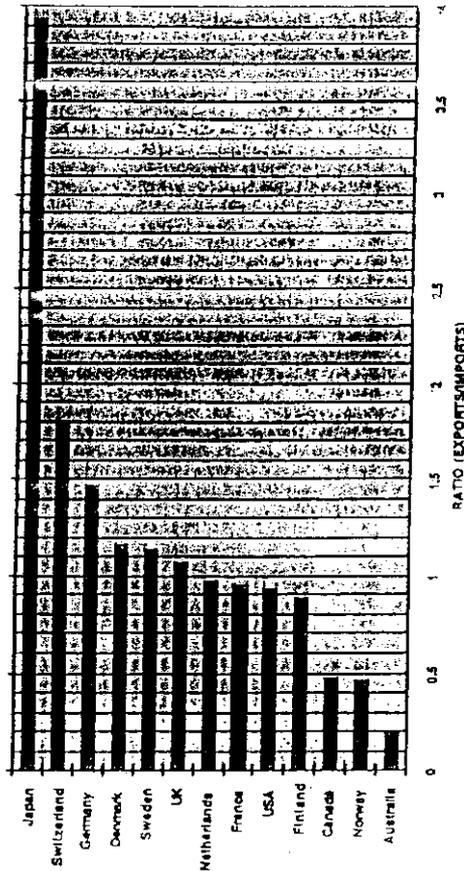
3 Australia's Trade Deficit for Technology Products

3.1 Ongoing Failure to Commercialise Research & Technology

The Australian Federal Government spent an aggregate of \$21.1 billion on science & technology over 12 years, from 1984 to 1996. Despite this very high level of public spending on science and technology, Australia has recorded one of the worst ranked trade performances, (an \$A18 billion deficit in technology based products) compared to other OECD countries in 1992.

Australia's poor technology trade performance clearly demonstrates our failure to commercialise R&D and develop technology based products and services to international export competitive levels. Australia's trade deficit for technology based products climbed to over \$26 billion in 1993-94, but OECD comparisons are not yet available.

Ranked Trade Performance in Technology based Products
(Selected OECD Countries in 1992)



Source: Australian Bureau of Statistics & Foreign Affairs (International Merchandise Trade Australia)

This Figure provides a ranking of performance in exports versus imports of technology based products. A ratio of 1 indicates balanced trade, a ratio greater than 1 indicates trade surplus and a ratio less than 1 indicates trade deficit.

The graph clearly demonstrates countries such as Japan, Switzerland, Germany, Denmark and Sweden are the leading producers of value-added technology products, enjoying a trade surplus. Japan is clearly the leading producer of value-added technology products, with exports nearly four times the level of imports. The UK, Netherlands, France, USA and Finland have successfully maintained a balanced level of trade of technology based products. Canadian and Norwegian imports of technology are almost double the level of their exports. Australia's imports of technology are five times the level of its exports, despite the fact that Australia's public expenditure on R&D is ranked fourth with other OECD countries!

5 July 1998 AFR

Fewer 45+ men in work

Chelsey Martin

from changes to the broader composition of the labour force.

Nearly half of all Australian men aged over 45 years no longer participate in full-time work, according to the Australian Bureau of Statistics.

The *Australian Social Trends 2000* report shows a trend towards early retirement continued over the past decade, with a larger proportion of Australians aged between 45 and 59 moving out of the workforce before the official retirement age.

"In 1997, there were 2.9 million men aged 45 and over. Of these, 1.3 million (44 per cent) had retired from full-time work, nearly all of whom had left the labour force entirely," the ABS found.

The reasons for retirement varied with age, but retraining, redundancy and ill-health were the most common.

This came as Australia experienced a shift in long-term unemployment from younger to older people

and yesterday stepped up its campaign against the fines, arguing they are "unjustifiably harsh" and being imposed indiscriminately.

ACOSS president Michael Raper said the fines were "out of all proportion to the seriousness of the offence".

"The most common penalty imposed on unemployed Australians for a rule infringement was \$76. This is higher than the average fine imposed by NSW courts for a breach and enter offence (\$70)."

Activity testing and administrative rules are part of the Government's commitment to mutual obligations. ACOSS says the measures are punishing vulnerable people with psychiatric conditions and drug and alcohol problems. But a spokesman for Community Services Minister Larry Anthony said the system is "firm but fair".

Welfare fines hit 200,000

Michelle Gunn
Social affairs writer

ALMOST 200,000 people were fined for breaching social security rules in the first financial year, delivering the Howard Government an estimated \$170 million in revenue.

The figures released yesterday by the Australian Council of Social Services show a dramatic rise in the number of breaches and unemployed people fined, by the penalty terms of the welfare recipients are now almost double their benefits.

Over the past five years, 300,000 breaches resulted in a financial year, compared to 160,000 in July 1997-98. The increase is attributed to welfare recipients being imposed on welfare rules such as failing to attend an interview, or failing to take a job offer, or failing to take a course. The figures are from the Department of Information

Austrade cash fails to deliver

Sid Marris

□ Economics correspondent

MORE than one-third of the \$350 million of taxpayers' money that Austrade spends to help companies increase exports has no effect.

And where the funding helps exporters, the benefit has been massively overstated by the statutory trade promotion body.

A damning study of federal government export promotion programs by Productivity Commission staff, released today, says there is no "robust evidence" of any benefit from an array of Austrade programs that cost more than \$100 million each year.

Under the largest Austrade program, the \$150-million-a-year Export Market Development Grant, there was evidence of improved export performance due to the scheme. But the improvement was only half of that claimed by Austrade's own assessment.

The allegedly dubious Austrade assessment was used to convince the Howard Government to extend the EMDG program for another five years in the last budget.

With exports growing 22 per cent last year, the question marks over the performance of schemes has not harmed payment of bonuses for Austrade staff or the generous remuneration package for its managing director, Charles Jamieson.

The Austrade annual report shows Mr Jamieson's salary

Austrade

Budget \$351m
(annual report 2000-01)
About a third of its spending estimated to be worthless

Charles Jamieson



Austrade managing director, 57.
Due to retire after 29 years, including six as boss.
Salary package about \$430,000

rising from between \$340,000 to \$350,000 in the previous year to about \$430,000 last year.

However, most of that apparent jump in earnings is accounted for by what was previously paid as an allowance to Mr Jamieson — and recorded in Austrade accounts as an operational expense — now being reported as salary.

The annual report says 36 per cent of Austrade's 995 employees received a 3 per cent bonus for superior performance, while 4 per cent of staff won a 5 per cent boost for exceptional work.

However, the Productivity Commission's staff paper says there is "no robust evidence" that programs such as Austrade's business services, Export Access and International Trade Enhancement schemes "had

any effects on the export growth of participants".

For the EMDG program — which paid a grant worth up to 50 per cent of marketing costs to more than 3000 companies last year — Austrade said each extra dollar spent through EMDG would generate an additional \$12.50 in exports.

But commission staff say the benefit was only worth \$6 for every \$1 spent, and even that figure could be overstated because some companies might have spent their own money on marketing and promotion if EMDG support had not been available.

"There does seem to be an effect (from EMDG spending)," assistant productivity commissioner Ralph Lattimore said yesterday. "But what we are saying is that effect is quite a bit smaller than Austrade's own estimate."

The study also suggests there are real benefits from research and development grants for exporters, but again questioned how much of the improvement was due to the grants. Most firms do not use the schemes, with 77 per cent making no use of R&D concessions and 84 per cent not using the EMDG.

The real performance of Australia's exports is holding up, but showing strains with the worsening global outlook.

Trade figures released yesterday for October showed exports grew by 0.4 per cent, a slower rate than the previous month but still 11.3 per cent higher than last year.

Austrade's multiplication game

Australia's export promoter has been blinding us with meaningless figures, maintains **Peter Urban**.

If there was one thing I learnt in 25 years as a policy adviser, it was that politicians love economic multipliers. You know what I mean by multipliers: a dollar spent on program or event X will generate Y dollars in economic activity.

Needless to say, multipliers come in multiple forms: consumption multipliers, investment multipliers, employment multipliers, etc.

For politicians, the variety of multipliers is part of their attraction. If the concern is employment (or, rather, unemployment), presto, you can expect to hear politicians quoting that such and such a program will have an associated employment multiplier.

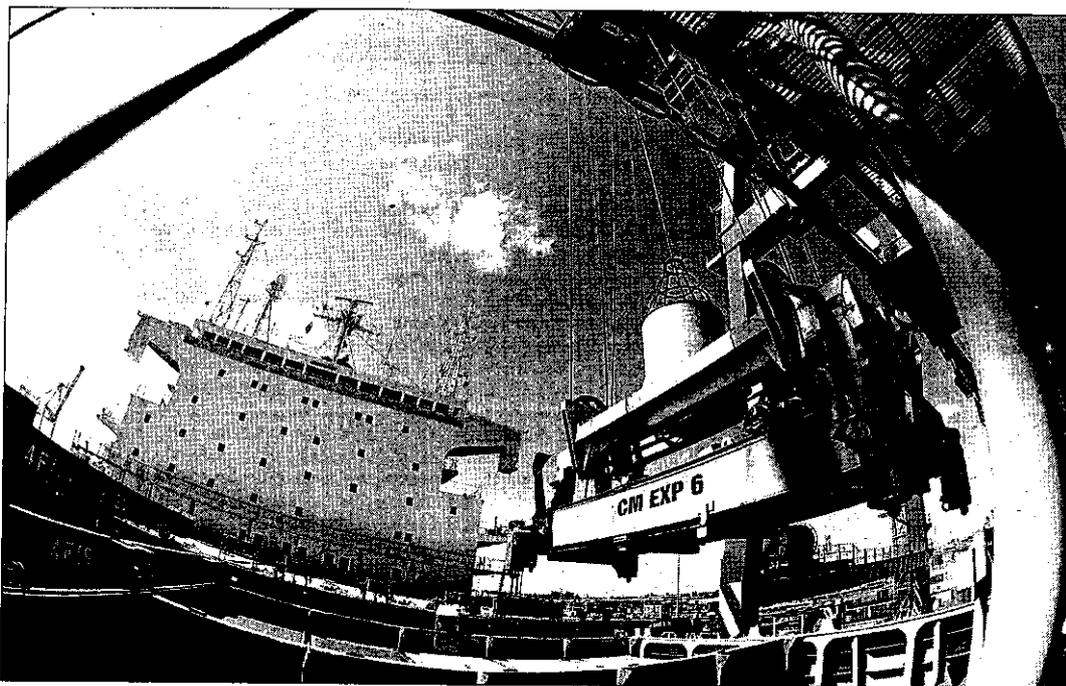
It's also easy to understand why politicians believe in multipliers. As they are spending our (hard-earned) money, they want to be confident they are spending it wisely: if the problem is employment, they want to be sure the employment program generates increased employment.

In an age of the 20-second sound bite, multipliers are even more wonderful: they exude accountability and are simple and concise.

Another lesson I learnt as an economic policy adviser was that if something is used, it will also be misused. Indeed, the more something is used, the more it is probably misused.

I was reminded of these two lessons when I read some recent Productivity Commission research on the Export Market Development Grant Scheme. It is another chapter in what I call the saga of the overstated export grant multiplier, which began when I was at the Department of Foreign Affairs and Trade in the mid-1990s.

One of my tasks was to explain to government ministers why the export grant multipliers regularly quoted by Austrade were wrong and, worse, meaningless. Of course,



Cynics would say that Austrade's core business is self-promotion, not exports.

Photo: ERIN JONASSON

this didn't stop Austrade from quoting grant multipliers (or ministers from believing them).

In 1994, Austrade estimated that "typically mature firms in most industries will generate 15 to 25 times the grants paid to them in additional exports". By 1999, Austrade had raised this grant ratio or export multiplier to 34!

After the Productivity Commission's submission to the 2000 review of the EMDG Scheme, questioning the grant multiplier, Austrade enthusiasm for ever larger multipliers waned and the review committee quoted a multiplier of 12.5. But even this figure is too high.

In its latest research, the Productivity Commission estimates that the multiplier is only about 6 and may be lower.

When we measure "bang for our buck" for a program like the EMDG Scheme, we should be measuring the

increase in net value — added or additional profit. So we should be asking what was the increase in net export value-added, not what was the gross increase in exports.

While most reporting on the Productivity Commission's research has focused on the obvious point — that the EMDG Scheme is a poor use of taxpayers' money — this isn't the real news in the research.

Most people in Canberra have known this for years — indeed, the cynical would say that Austrade's core business is self-promotion, not export promotion. The real issue is why Austrade has been able to continue to knowingly quote nonsensical grant multipliers.

Of course, the EMDG Scheme is important to Austrade. By keeping Austrade's (potentially critical) customers happy, the scheme makes life easier for Austrade. As a result, we can expect Austrade to want to

continue to praise the scheme despite its poor value for money and the fact that it involves significant compliance costs for many recipients.

The real policy failing has been in the Treasury and the Department of Finance and Administration, which are supposed to be protectors of the public purse. Rather than point out the failure of the EMDG Scheme, these two departments appear to have judged it politically expedient to leave the case against the scheme to the Productivity Commission.

Hopefully, these departments will now come to the commission's support in repulsing Austrade's criticisms of the PC research. As ministers will want to believe Austrade, the Productivity Commission will need all the bureaucratic support it can get.

■ Peter Urban is a former chief economist with the Department of Foreign Affairs and Trade.

Our foreign legion under attack

Aaron Patrick

Australia's governments have spawned investment offices across the world's major cities in an uncoordinated and overlapping search for foreign capital, according to the Blackburn report.

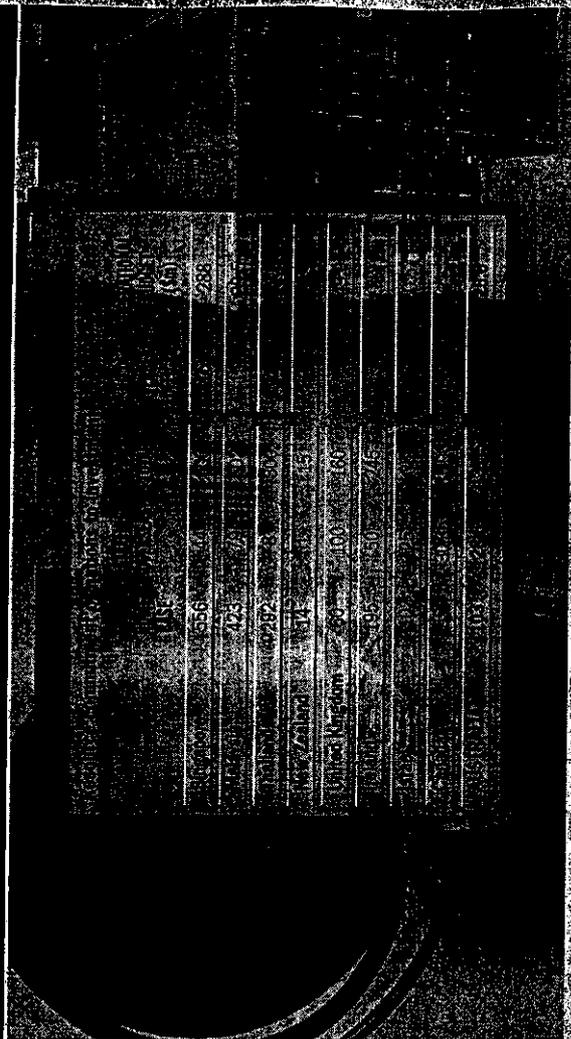
Dr Ian Blackburn told the Prime Minister, Mr John Howard, that Australian government organisations — including Invest Australia, Austrade and the State governments — have placed 83 representatives in 40 cities.

An example of what Dr Blackburn describes as an "absence of a whole-of-government approach either in terms of the strategy or the delivery" is London, where there are seven Australian representatives. The only State without a person in London is Tasmania, which has no overseas offices.

Tokyo is just as populous, also with seven offices, while New York, the largest capital market in the world, has just two (invest Australia and Austrade).

Australian investment representatives typically spend much of their time briefing investors about the commercial and economic conditions in Australia. They can also put foreigners seeking tax benefits, ratatory concessions and foreign investment in their own State governments in a situation some companies use to

OVERSEAS INVESTMENTS



play off one State against another.

In addition to the overseas offices, several domestic agencies play a role in attracting foreign capital. The Prime Minister's Office, Foreign Investment Commission, Foreign Affairs and Trade, and the National Office for the Information Economy promote

Australian high technology, as does the Department of Communications, Information Technology and the Arts.

Such complexity and inter-agency needs to be rectified. Dr

Blackburn wrote to date, no single Australian brand has been able to break through the clutter.

The most important organisations are Invest Australia and Austrade, but Dr Blackburn appears to believe they are duplicating each other, and is proposing Austrade hand over its statutory responsibility to promote investment to Invest Australia.

Arrogance about our appeal unfounded

COMMENT
Tony Walker

ard, ineffective and typically confused by a plethora of government agencies whose officers, no doubt, enjoy opportunities to travel the

system is still bedevilled by layers of officialdom. "Such complexity and inefficiency needs to be rectified."

volume of global overseas investment. What comes through is the smell

Scully enters dispute

The NSW Government yesterday weighed in on the controversy about protecting workers' entitlements

calling on the rail components supplier to maintain to end a month-long strike over the issue by taking steps to guarantee workers' accrued benefits.

The NSW Minister for Transport, Mr Carr, Scully, denied assertions by Maintrain that its employees' entitlements were protected by a State Rail Authority bank Guarantee.

Industrial action on the issue. He said yesterday, with 250 Electrical Trade Union members at Solihull, the communications walking off the job for 48 hours.

Stephen Long

Airlines review branding

Ansett and Air New Zealand are considering a new Umbrella brand that would be called either PacificStar or Pacific Air.

Under consideration is whether both airlines would be rebranded under another name or whether they would be used as a master brand for bookings and the two airline brands and aircraft liveries kept intact.

Ansett/Air NZ has asked agencies competing for its advertising account to provide ideas for the new brand. An Ansett spokesman said brand relaunch would occur before March next year but declined to comment further.

Rochelle Burbury

ALP's Swan convalesces

The Opposition's deputy and continuing services spokesman, Mr Wayne Swan, is expected to resume his

role after a cancer surgery on Saturday night. The Prime Minister, Mr Howard, said he was pleased the operation was successful, and the Opposition spokesman, Mr Kim Beazley, said he expected Swan to resume his

role after he is once fully recovered. The 47-year-old has been advised to stay away from work for up to two months and

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Initially for staff: Greg Dodds says the institute will eventually offer courses to the public

Austrade sets up 'export' university

Austrade is working with RMIT to develop a virtual university to provide training that will sharpen Australia's international business skills, Jennifer Foreshe reports

AUSTRADE has launched a public-sector corporate university online, to deliver business education and training.

The Austrade Institute will assist Australian businesses operating internationally by training export professionals.

Austrade north-east Asia executive general manager Greg Dodds, the project's overseer, says initially it will be for Austrade's 1000 staff worldwide.

"The longer term objective is to make it accessible to businesses in Australia, and they will become an integral part of the knowledge transfer," Dodds says.

The institute, which will

receive about \$4 million in funds over three years, is uniquely placed to engage with overseas business and government groups, he says.

"Apart from the ABCs of exporting, which are available at a number of other institutions, Austrade can deliver a lot more detailed knowledge and experience about doing business successfully.

"For example, bidding for project work in Vietnam or doing business successfully with Japanese trading companies — how to set up deals and what to look out for."

Dodds says it is likely the institute, which will initially run on Austrade's intranet, will offer services to the public in about two years.

"We would aim to make available a lot of the material we have online free to small and medium companies," he says.

"It is likely fees will be charged for more structured courses that result in qualifications."

RMIT has won a three-year contract to develop the Austrade Institute, including providing education and training programs.

The institute will offer three key elements of a virtual university environment: education and training, research and development and alumni and academic networks.

RMIT University, RMIT International, the Global University Alliance and NextEd collaborated on the tender as

the RMIT Consortium. Austrade Institute project director Christine Fitzherbert says the virtual concept will ensure greater flexibility of delivery to workers, including those offshore, and access to leading-edge programs.

A mix of short courses, award-based courses, degree and online courses will be offered, and users can apply for face-to-face programs.

The courses will include internal Austrade programs, RMIT courses and offerings from external providers, such as the Global University Alliance.

www.austrade.gov.au



AUSTRADE loose with fast facts

IAN HENDERSON

□ Economics correspondent

THERE'S an old saying in economics that if a something looks wrong, it probably is.

It's a wise warning that should be nailed to the head office walls and slipped into the in-trays of the nation's chief spruiker for trade and foreign investment, Austrade.

A claim in an internal briefing paper that's meant to help Austrade's senior staff promote the organisation's success stories says exports created more than 1.25 million jobs last year.

Alarm bells should have rung somewhere, for someone, that the claim is nonsense.

They didn't, so now it's time for red faces all round.

In fact, fewer than 200,000 employees were added to the payrolls of all the nation's shops and stores, mines and farms, factories and production lines, building sites, hotels, cafes, offices and the like between mid-1998 and mid-99.

Most of those workers were busy malding, packaging, moving and selling goods and services with local buyers in mind.

In fact, as Austrade itself says in "Austrade Fast Facts" — a copy of which has found its way into The Australian's hands — sales to overseas markets accounted for only about one-fifth of the of goods and services produced by the whole economy.

But that admission failed to dampen the spirits of the men and women whose working lives are dedicated to urging Australians to get into foreign markets and to luring foreigners to invest here.

Under the heading "Export related job creation in 1998-99 by region", the briefing note says:

"Exports to East Asia created more than 750,000 jobs.

"Exports to Japan and Hong Kong alone created 226,000 and 81,000 jobs, respectively.

"Exports to APEC countries created 1,046 million jobs.

"Exports to ASEAN countries created 240,000 jobs.

"Exports to Europe created 235,000 jobs.

"Exports to the US created 165,000 jobs.

"Exports to New Zealand created 123,000 jobs.

Adding the numbers without doubling up where there's some overlap, the figures suggest Aussie exports to the 21 APEC member countries and to Europe created about 1,279 million jobs in 1998-99 — more than six times the total employment gains recorded in official statistics.

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Innovation 'fragmented'

JENNIFER FORESHEW
□ Planning

AUSTRALIAN innovation is in dire need of a coordinated planning body to overcome the "fragmented" and closed nature of the sector, a leading expert has warned.

Sydney University's Australian Centre for Innovation and International Competitiveness executive director, Ron Johnston, has attacked the nation's innovation structure ahead of an industry seminar tonight.

"What is so evidently lacking in this Government's considerations of any issues involving innovation, knowledge, research and learning, is the recognition they are indissolubly connected," Professor Johnston said.

"The recognition and adoption of a foresight-based approach could do much to overcome this deadly weakness."

Although science and technology agencies such as the CSIRO conducted their own innovation planning, there was no broader perspective taken, he said.

"I am suggesting a cross-agency approach, which is much more publicly visible, might be the way to go," he said. "We have got to drive [innovation planning] out of its fragmented nature to get a lot more connections between the various layers."

Professor Johnston will address the Mobilising National Innovation Capacity: Towards an Innovation Summit in Melbourne.

The seminar is being held in a lead up to the National Innovation Summit in February 0, which will be sponsored by the Federal Government and Business Council of Australia.



Unis rake in the millions

By JACKIE DENT

Sydney's two top universities received more than \$24 million in donations and bequests in 1998.

Sydney University was the second most successful university fundraiser, earning \$14.6 million from donations and bequests that year, followed by the University of NSW (\$9.8 million).

Melbourne University was the nation's most successful university fundraiser, earning \$19.3 million from individual and company benefactors.

In fourth position was the University of Western Australia (\$8.4 million), and Monash University (\$7.8 million) was fifth.

Victoria's universities earned more from donations and bequests than any other State or Territory in 1998 - a total of \$42 million, \$12 million more than the previous year.

The money universities receive in donations and bequests represents only a small part of their total income.

The Federal Department of Education statistics reveal that in 1998 Australia's universities

received 1.4 per cent of their income, or \$114 million, in donations and bequests.

By comparison, they received 3.4 per cent of their income from investments (\$289 million), 16.2 per cent from fees and charges (\$1.3 billion) and 50.8 per cent (\$4.29 billion) in the form of Federal Government grants.

Melbourne University received \$4.1 million from full fee-paying local undergraduate students while Monash University received \$1.9 million and Sydney University \$1.2 million.

Critical: Professor Johnston says broader planning is needed

novation in Australia. "Innovation has got to be driven right through the community," Professor Johnston told *The Australian*. "It is not a question of just a few businessmen or scientists making decisions."

Preparations for the National Innovation Summit appeared to be "marked by secrecy and insider deals" and were closed to most Australians. "It hasn't in any way sought to address the wider

was concern the Summit could be another "talk-fest".

Professor Johnston will speak on Lessons for Australia along with Martin Ridge from the UK Office of Science and Technology and James Buidala from NZ's Ministry of Science and Technology.

Professor Johnston said Australia must learn from the open and widespread foresight programs of the United Kingdom and New Zealand. "These

Picture: GRAHAM HELY

two countries appear to be leading the pack not only in examining the future, but ensuring the analysis feeds into government decision-making and investment."

A recent European Commission survey of major foresight projects in 12 OECD nations in the past five years found only New Zealand and the United Kingdom had specific follow-up actions.

www.afic.org.au

Carr rejects damning accounts report card

Lisa Allen

NSW Premier Mr Bob Carr has summarily rejected a Public Accounts Committee report highly critical of the Department of State and Regional Development, tabled in State Parliament earlier this week.

The comprehensive report, prepared by several MPs including three Labor backbenchers, found the department was acting in secret, misleading the electorate and not disclosing who it was granting money to.

The department was also claiming credit for work it had not achieved, said PAC chairman and Labor MP, Mr Joe Tripodi.

But Mr Carr yesterday denied the NSW Government took credit for securing investments when it was not due, despite the comprehensive findings of the report.

"I disagree with that," he said. "First of all, we create the business climate in NSW, second, we cop the flack when we make the hard decisions to get investment."

"We spend less than the other States because we've got, I think, the most competitive economy and we get it on our strengths, by and large."

"I think we've got the balance right between the necessary incentives to get someone to set up a business, especially in regional NSW, and as a rule the incentives we provide are less than the other States."

The NSW Audit Office was also



Mr Bob Carr says his Government claims credit only when credit's due.

heavily critical of the internal financial reporting mechanisms of the Carr Government earlier this week, following a review of four major government agencies.

The Audit Office report, tabled in NSW Parliament on Wednesday, reveals some government agencies miscalculated projected costs of services by nearly 10 per cent, while others exceeded their full-year projections by the middle of the year.

"The report showed a lack of appreciation by most agencies of the need for sound financial reporting," the NSW Auditor-General, Mr Bob Sendt, said yesterday. "It shows a lack of understanding by senior manage-

ment of basic financial measures."

The government agencies surveyed were unable to define key financial performance indicators, according to the report.

"Most agencies either had not yet identified and or were not reporting against key performance indicators," it said.

"In some agencies, the internal financial reports contained little, or no, operational performance information."

Most of the agencies reviewed did not prepare a statement of financial position and there is limited reporting of financial ratios.

The report also found:

□ Financial reports do not link financial results to the delivery of services.

□ Managers lack skills and training.

□ Agencies are producing large amounts of irrelevant information.

□ Distribution and use of reports has not kept pace with technology.

The Audit Office has called on the Carr Government to improve its financial reporting mechanisms.

"A more consistent approach to financial reporting through the use of minimum standards is suggested," the report states.

The Audit Office has prepared a "Better Practice Guide" to help NSW government agencies with their reporting.

The office declined to reveal the identity of the government agencies reviewed.

with AAP

PwC boosts GST practice

Latest figures from the Big Five professional services firms show continuing investment by PricewaterhouseCoopers in its GST practice. In the past year, the number of partners and directors rose from 22 to 26 while staff grew from 101 to 138. Mr Kevin O'Rourke, PwC's national indirect tax leader, said revenue in the year to date was 17 per cent higher than the previous year. Ernst & Young's partner and principal numbers in the indirect practice declined by one to 19 and staff numbers were 101 compared with 116 the year before. Deloitte Touche Tohmatsu increased indirect tax partner numbers by three to seven, while staff numbers were cut from 121 to 83. Andersen and KPMG did not provide staff numbers. However, Andersen said that GST was 10 per cent of revenue in 1999 and 20 per cent in 2000.

ATO counsel joins Deloitte

Deloitte Touche Tohmatsu has appointed former deputy chief tax counsel with the Australian Taxation Office, Mr Michael Bersten, and a former tax director of PricewaterhouseCoopers, Ms Jane Coomer, as partners in its Sydney office. Mr Bersten was chairman of the Tax Avoidance (Part IVA) panel, had been chairman of the Aggressive Tax Planning Steering Committee and was a member of the Public Rulings Panel.

High cost of new tax system

A PricewaterhouseCoopers survey of 360 businesses found 79 per cent spent up to \$250,000 in transition costs for the new tax system, while 90 per cent expect to spend up to the same amount to complete transition. Meanwhile, 11 per cent spent between \$ million and \$10 million on GST costs, six firms spent between \$10 million and \$50 million, and six others have spent \$50 million so far. Nearly half the businesses have increased their staff by one to three people to deal with the GST.

Mark Fenton-Jo

Dec 11 01



Information laws open to manipulation

Claire Harvey

FREEDOM of Information laws are weak, riddled with inconsistencies and manipulated by politicians and bureaucrats, secrecy experts have warned.

Flawed legislation enables lazy bureaucrats to reject most FoI requests, West Australian information commissioner Bronwyn Keighley-Gerardy said yesterday.

"The system has been designed by bureaucrats for bureaucrats," she said, adding that many documents were simply stamped "confidential" or "commercial-in-confidence" to avoid scrutiny.

"Merely marking a document as confidential doesn't make it confidential, although a lot of people in government agencies seem to think it does," Ms Keighley-Gerardy told an Open Government forum convened by NSW Democrats leader Arthur Chesterfield-Evans.

"It doesn't help the public, it makes them more cynical and more distrustful."

Governments that feared public scrutiny could change their systems without endangering genuinely private information such as national security documents, New Zealand Chief Ombudsman Brian Elwood said.

New Zealand overhauled

FoI: what it costs

Basic application fees:

Federal \$30; NSW \$30; Qld \$31; WA \$30; Victoria \$20; Tasmania \$25.*

In some states personal information, such as hospital records, is free.

The cost of FoI applications can run into thousands of dollars after other charges, such as for photocopying documents, are taken into account.

**FoI legislation will be introduced into the NT Assembly next year.*

its secrecy laws in 1982, putting the onus on government agencies to prove why documents should remain secret.

Under most Australian FoI laws, the burden of proof falls on individuals, who must show why information should be released.

"When you are acting in a public office and expending public money, the information you hold belongs to the public," Sir Brian said.

Investigative journalist Ross Coulthart said FoI laws were "a joke".

Government departments deliberately stymied FoI requests by charging exorbitant fees to recover documents or claiming the information was "commercial-in-confidence" or subject to priv-

acy restrictions, said Coulthart, a reporter on the Nine network's *Sunday* program. "Privacy is now becoming the big excuse for bureaucrats to cover up their dirty secrets."

NSW Deputy Ombudsman Chris Wheeler said it was "untenable" for governments to suggest bureaucrats would hesitate to give frank opinions on government policy if their advice could be publicly released.

"The public is clearly entitled to expect public officials to act in the public interest," Mr Wheeler said. "This means (they) are expected to be frank and candid ... it also means they are expected to be transparent and accountable."

But wide FoI laws could endanger the private commercial operations of companies dealing with government, Australian Institute of Company Directors chief executive officer John Hall said.

"Business would certainly welcome more open government but where we run into difficulties is having a policy that does not protect intellectual property."

NSW Opposition Leader Kerry Chikarovski promised to appoint a commissioner to oversee the FoI system.

The Northern Territory in October became the last Australian jurisdiction to introduce an FoI Act.

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Red tape a deliberate snag in FOI

PENELOPE GREEN

PUBLIC servants are misusing exemptions in Freedom of Information legislation to avoid scrutiny of government policies, the Commonwealth Ombudsman has found.

Widespread problems in the handling of FOI legislation, including a "minimalist approach" adopted by federal agencies in releasing information, were identified in a report released yesterday by ombudsman Ron McLeod.

The report highlights an increase in problems encountered by agencies in record-keeping, and calls on the Howard Government to set up an agency to deal with FOI administration.

"Collectively, the problems identified in this report are illustrative of a growing culture of passive resistance to the disclosure of information," the report says.

"These problems are unlikely to be overcome while there is no body or authority with oversight of the FOI Act."

The report identifies encouraging progress by some agencies in achieving the aims of the Act but warns that any gains will be lost unless greater "vigilance" is exercised.

The volume of FOI requests had not increased significantly in the past decade, but the report says agencies

were failing to act on one in four requests within the FOI Act's statutory time limits.

"This suggests that some agencies are not giving sufficient priority to meeting the obligations required by the Act," it says.

The report says while there was general acceptance of the need for openness and access to information, few agencies had mechanisms in place that encouraged or promoted the disclosure of information without using the Act.

6 Growing culture of passive resistance to information disclosure

Ombudsman's report

Many agencies, in particular those dealing with government policy, had adopted a "minimalist approach" to disclosure through the "inappropriate application of exemptions" in the Act.

The report says the Act places a responsibility on governments to be more open in their policy and decision-making, and therefore more accountable to the people.

"The underlying thrust of the Act is for government agencies to make the maximum amount of information available to the public so that people will not need to resort to their legislative right to obtain information," it says.

1 for 3 on Bush...

Professionals targeted in tax purge

Sid Marris

□ Economics correspondent

A PARTLY successful crackdown on barristers who avoided paying tax will become a model for extracting wealth from high-income professionals, the Australian Tax Office said yesterday.

Besides lawyers, those targeted will include doctors, accountants and other self-employed groups.

Fifty-three senior legal officers may yet end up before the law for

not paying tax. But a large number of barristers are still able to use family trusts and other devices to avoid tax, putting pressure on the re-elected Howard Government to clamp down on the practice.

The ATO annual report yesterday revealed its crackdown had achieved a 36 per cent increase in tax paid by NSW barristers.

But the tax office will have to take legal action to secure money owed. A total of 590 barristers, QCs and SCs owed \$52 million at the beginning of

the case study. Despite the efforts, 432 still owed \$44 million in tax.

Tax commissioner Michael Carmody said using a variety of techniques — putting assets in partners' names or family trust — barristers could avoid paying tax they owed. The ATO had identified 38 barristers ready to claim bankruptcy because of the crackdown.

"For one in three of these individuals, this would be their second or third bankruptcy in a decade," he said.

THE AUSTRALIAN — Thursday November 22 2001

The Australian Financial Review

www.afr.com.au • Friday 3 November 2000

Barristers top tax avoidance

Paul Cleary

The Australian Taxation Office has singled out tax avoidance by members of the legal, accounting and medical professions as a major concern.

And barristers topped the list for using insolvency to avoid their tax obligations.

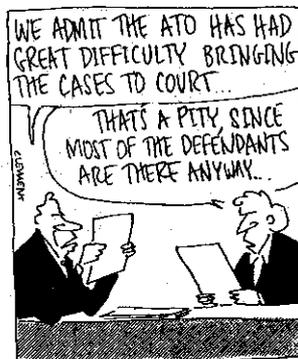
According to the ATO's annual report, these professions had five times national average tax debt, while for barristers the multiple was 10 times.

The Tax Commissioner, Mr Michael Carmody, said four case studies showed how high-wealth individuals go into bankruptcy to avoid their tax obligations.

Three of the examples involved barristers, and the fourth was a doctor.

The case studies revealed how the individuals had paid off all their debts and left the ATO as the sole creditor.

The ATO report also revealed that companies were again making use of tax havens to



minimise tax, despite the legislative crackdown in the early 1990s to introduce the controlled foreign corporations law.

Mr Carmody said he has "subsequently received advice that doing so [naming cheats] would be outside my legal powers".

The report also included an extensive discussion on aggressive tax planning, and it revealed the

difficulty faced by the ATO in bringing cases to court. In the report, Mr Carmody said almost 18,000 taxpayers had invested in more than 300 tax minimisation schemes.

The level of deductions from mass marketed schemes was an "unacceptably high" \$1 billion.

The ATO admitted that the use of tax havens had "increased significantly" in recent years, with Singapore, Hong Kong, the Netherlands and Switzerland cited as the most popular havens.

While new legislation governing tax havens was introduced in the early 1990s, the report noted that "the value of payments from Australians to tax havens has increased significantly since 1996".

However, the ATO achieved some wins in targeting high-wealth individuals. Over the past four years a special project has raised almost \$200 million from this group.

It has focused on reducing losses claimed by high-wealth individuals, which have been reduced by \$927 million over three years.

Little to show for reforms

Ian Henderson
□ Political correspondent

PRIVATISATION, corporatisation and other reforms of the 1990s have delivered little improvement to the financial performance of most government businesses.

The finding, stemming from a study by the Melbourne Institute with the support of several government agencies, could undermine a campaign by senior Treasury officials to promote further economic reform to an often sceptical public.

The research, by economist Joanne Loundes, cautions that its analysis does not refer to any cuts to the prices of services delivered by public sector businesses.

And, it adds, there might well be further financial gains from reform now in the pipeline, such as lower interest payments from reduced government debt, and access to cheaper funds for spending on new investment.

But Dr Loundes's results will disturb the advocates of reform and could renew calls for any further radical overhauls of government enterprises to be undertaken with caution.

After reviewing the results of reform in the electricity, gas, water, railways and ports authorities, Dr Loundes says: "There does not appear to have been a noticeable enhancement in the financial performance of most of these businesses, although railways have improved slightly."

Alan Wood — Page 15

Howard says \$A doesn't matter at all

Paul Cleary

The Prime Minister, Mr John Howard, attempted a new and risky tack yesterday in defending his economic management, when he said the value of the Australian dollar "doesn't matter at all for people living in Australia".

In a speech to retirees at a bowling club in Brisbane, Mr Howard typecast concern about the dollar as a matter for people who travelled overseas. He also claimed the currency had only fallen against the US dollar, despite the fact that it has slumped 10 per cent against the trade-weighted index since the end of last year.

The Australian dollar finished yesterday just above US50¢, up about 0.3¢, and can expect some respite this week if the US Federal Reserve Board announces another aggressive easing of official interest rates.

The board's policy committee was meeting overnight, and some analysts are tipping a cut of up to 75 basis points. Some local forecasters have said the move could trigger cuts in Australian official cash rates as early as this week.

Even though Australia spends more than 20 per cent of its income on imports, including essentials such as oil, information technology and capital equipment, Mr Howard told his audience that the dollar's value did not matter for "normal domestic purposes".

"It is lower than it was if you are going overseas, if you are buying American dollars for other reasons or if [sic] buying foreign exchange, it matters," he said.

"If you are buying things in Australia that are unaffected it doesn't matter at all, that is the reality of it. An Australian dollar is worth as much now for normal domestic purposes as a year ago and certainly a week or a month or three months ago."

Mr Howard claimed that the dollar's fall was solely due to the strong US dollar. "When the American dollar strengthens, all other currencies weaken," he said.

Rate cut speculation, MW1 ■

Coonan the woman to tame tax k

Matt Price

NOT long ago Helen Coonan was an obscure NSW senator scrambling to be noticed on John Howard's backbench.

Today she holds one of the most powerful jobs in Government where she will regularly rub shoulders with both the PM and Peter Costello.

"It's a huge buzz," Senator Coonan said as she contemplated her new role as Assistant Treasurer and Minister for Revenue.

This, she explained, involved overseeing tax, superannuation and the insurance industry — a powerful trifecta for a rookie minister.

The hardworking, confident ex-lawyer once held down a regular spot giving free advice on TV's *Beauty and the Beast*. Mr Howard has sought to cast Senator Coonan in a vaguely similar role, only now it's the tax office that needs taming.

While more than a few eyebrows were raised at the PM's choice, no one seriously questioned her credentials.

It's quite possible the senator, who parachuted into politics from the skyscrapers of corporate law, knows more about the intricacies of tax and high finance than the Treasurer.

What Senator Coonan does not deny is that running for the Senate in 1996 involved a significant pay cut.

"There's a real element of pulling on the green and gold for Australia in the kind of transition from lucrative legal to humble politician," she said.

Miffed by repeated hiccups implementing the GST, Mr Costello asked the PM for an aide to oversee the tax office and Senator Coonan won the job.

She played down the suggestion her main role will be ATO head-kicker and the senator insisted she would not be imitating Bronwyn Bishop, who based an ill-fated tilt at the Liberal leadership on her popular mid-90s stoushes with the tax office.

But Mr Howard understands you won't upset many "aspirational voters" slapping around the taxman and Mr Costello is happy to hand the watchdog role to his new assistant.

Senator Coonan grew up in the tiny rural NSW town of Mangoplah. She went to a one-teacher primary school before boarding at nearby Wagga Wagga, all part of what she called an "idyllic rural childhood".

But city life beckoned and Senator Coonan won a scholarship to Sydney University

THE AUSTRALIAN — Thursday January 3 2002



Rookie minister: New Assistant Treasurer Senator Coonan may know more about tax and high finance than the Tr

'There's an element of pulling on the green and gold for Australia'

Helen Coonan
NSW Liberal senator

and studied law. Aged 25, she set up her own practice dealing mainly with personal injury, property and family issues.

"I got politicised along the way," the 54-year-old senator said. "I realised that you could act for people on a case-by-case basis, but you could achieve so much more if you could actually get a law that worked in their favour."

"Always a Liberal", she has

shown her moderate bent by helping to open Sydney's first women's refuge, followed by women's health and legal centres.

Living in New York with her husband, Senator Coonan became smitten with commercial law. She found her dream job when she returned to Sydney — helping the liquidator sort through wreckage after the 1989 collapse of the Spedley group.

Senator Coonan called it "my Dollar Sweets", a reference to the anti-union case that first brought Mr Costello to national attention.

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Watchdog

Matt Price

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On the ball: Sport is the big budget item

TV income

Jane Schulze
Media

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Watchdog cha

From Page 1

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Thursday January 3 2002



Watchdog chases taxman

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Mr Howard has assigned Senator Coonan the task of

overseeing the tax office in reaction to what the Government perceived as problems with the implementation of the GST during its second term.

At the time, the Prime Minister said he wanted a "more positive" relationship between the business community and the tax office.

In her first extensive interview since promotion to the ministry, Senator Coonan told *The Australian* she would attack systemic problems in the tax department that affect business taxpayers and individuals.

Senator Coonan raised concerns that the ATO was

responsible for both the drafting and policing of tax laws.

"There's often some difficulty in the fact that very complex legislation is developed in the tax office and then they also have to police it ... where, say, with the ACCC (Australian Competition and Consumer Commission) and (its chairman) Allan Fels, he doesn't draft his own legislation.

The ATO's drafting powers "may go somewhere else".

Senator Coonan said the new office of Inspector-General of Tax, as promised

Continued — Page 4

On the ball: Sport is the big budget item for Australian television networks 10 AP 01

TV income hits \$3.2bn goal

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gramming with the largest percentage of local budgets directed towards sport.

The figures show radio stations also performed well with combined profits growing 36.1 per cent to \$146.3 million.

The radio industry lifted total revenue 16 per cent to \$737.5 million, while the TV industry increased revenue 12.3 per cent to \$3.2 billion.

Seven was found to be the only commercial TV network to cut spending on Australian programming, with its investment falling 5.5 per cent.

The commercial networks spent \$596.6 million on local programming in 1999-2000.

The largest percentage was on sports broadcasting (\$187.3 million), current affairs (\$153.2 million), light entertainment (\$119.8 million), drama and children's programming (\$110.1) and documentaries and other programming (\$26 million).

The ABA said licence fees from Australia's TV and radio stations hit \$211.4 million in 1999-2000, only \$300,000 more than the previous year.

Assistant Treasurer Senator Coonan may know more about tax and high finance than the Treasurer himself

Picture: Glenn Campbell

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Watchdog chases the taxman

From Page 1

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Senator Coonan said she

was still considering the specific role of the Inspector-General and would consult with the Advisory Board of Taxation and business groups. But she promised the position would not be "bogged down in bureaucracy".

While the ombudsman would continue to deal with individual complaints against the tax office, the inspector-general could be expected to deal with wider policy problems and red tape.

The new minister insisted she would retain constructive relations with the tax office and its commissioner Michael Carmody. "They're an inde-

pendent, statutory office and I'm not going to be pre-empting who's going to be kicking who," Senator Coonan said.

"But I'm aware of the fact that there are some problems and there's a legitimate expectation that those problems be addressed.

"I think there's a lot of opportunity there to unplug the arteries and look at where the blockages might be."

With Labor ready to pressure the Government to further simplify the Business Activity Statement, Senator Coonan has hinted at possible further BAS changes.

UNDER EMBARGO
until Tabled 18 June 1996

**JINDALEE OPERATIONAL
RADAR NETWORK**
Department of Defence

The Auditor-General
Performance Audit
Audit Report No.28
1995-96

Recommendations and Responses

The ANAO made 17 recommendations designed to improve project management on JORN and other major Defence projects. Defence accepted these. Telstra believes the ANAO's findings and recommendations should provide lessons learnt that should be applied to other larger projects and the remainder of the JORN Project.

More Information

For more information please contact:

Tony Minchin Tel: (06) 203 7456
Ray McNally Tel: (06) 203 7765

Overall, about 28 per cent of JORN's software has now been produced. The JPO advises that the JORN software joint venture has produced about 19 per cent or 150 000 of the 800 000 source lines of software code now estimated to be required for the joint venture's part of the Project. Telstra's other major JORN subcontractor has produced about 49 per cent or 190 000 of the 400 000 source lines of code now estimated to be required for its part of the Project. However, the actual number of source lines of code to be written for JORN is unknown because some software requirements and designs have not been completed. The JPO advises that software estimates may escalate once the software design is complete.

The ANAO concluded that, given the slow progress in JORN software and hardware production and the systems integration challenges ahead, no single party had a clear and accurate understanding of the overall size of the JORN development task.

Defence said in response to the audit that there was little doubt that JORN's cost will exceed the ceiling price and the loss will be borne by Telstra. Defence said that, since 1994, concern had been expressed to the contractors about the project and that this had led to management changes and restructuring of the subcontract arrangements. Defence was confident that a satisfactory technical outcome remained within reach but said it would be unrealistic to expect that problems faced by the project could be turned around quickly. It further stated that it had taken significant action to address some specific risks and this had been followed up by substantial actions taken by both Telstra and its main subcontractor.

Conclusion

Governments have a responsibility and a right to keep the public informed and consult the public on their policies and their implementation. The extent of any framework designed to satisfy these responsibilities is, pragmatically, up to the Government of the day in the first instance and, subsequently, subject to oversight, debate and approval by the Parliament as the representatives of the Australian people.

Government programs are also subject to examination by the Auditor-General but only to the extent of ensuring that the expenditure incurred and authority exercised are in accordance with the Parliament's legislation and Government guidelines.

Expenditure from AMFA for 1997-98 and in 1998-99 was appropriately approved. However, on the basis of an examination of the evidence, in the ANAO's view the Government should have been advised that not all funds would be spent in the 1997-98 year and it would be necessary to include provision in the relevant 1998-99 Appropriation Bill. Such action would have reinforced the confidence and perception about the use of AMFA in situations only where it is not practicable to include the expenditure in Appropriation Bills that will be subject to Parliamentary debate.

Nevertheless, on the basis of the evidence available and legal advice, the ANAO concluded that the Government acted legally and officials acted ethically.

However, in the light of reported public and previous and current Parliamentarians' concerns surrounding the use of public monies for government information and advertising and, in particular, the use of AMFA for such purposes, the ANAO suggests that the Government and/or Parliament consider such concerns and determine whether, in the interests of public accountability and confidence, it is necessary to establish:

- a Parliamentary review of government information and advertising arrangements to assist in determining

appropriate guidelines for taxpayer funded programs including, for example, whether arrangements should be limited by time, expenditure limits or other parameters, particularly in the period leading up to elections; and

- as part of that review, or separately, an examination as to whether the legislative provisions of the Appropriation Bills governing the use of AMFA ensure appropriate scrutiny where Parliamentary and the general public interest indicate a matter is likely to be contentious or of some sensitivity. This may include, for example, tightening up on the legislative provisions in the Appropriation Bills governing the use of AMFA, reviewing the DOFA Guidelines, or perhaps more regular and/or more detailed reporting requirements on the use of AMFA.

The ANAO also suggests that there would be benefit in reviewing the guidelines for requests for copyright of Commonwealth developed material so that the licensing of copyright for party-political purposes during an election period is specifically addressed and clarified for those decision-makers involved.

Agency Response

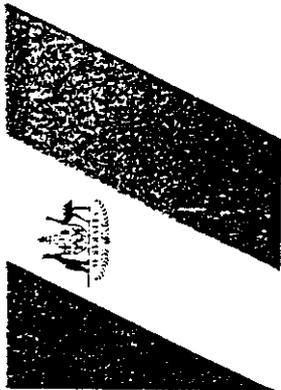
Agency comments have been incorporated into the report. In Treasury's view there was full disclosure and scope for Parliamentary scrutiny. DOFA considered current arrangements to be appropriate and appropriate.

In recent years \$390 million per annum has been appropriated in the Appropriations Acts for the purpose of the AMFA (Advance to the Minister for Finance and Administration).

For more information please contact:

Mr Warren Cochrane Tel: (02) 6203 7594

Internet: <http://www.anao.gov.au>



PERFORMANCE AUDIT

Taxation Reform

Community Education and
Information Programme

UNDER EMBARGO
until tabled 29 October 1998

How canny minders outlast their masters

I was, as I recall, one of my first Cabinet meetings and I had just completed a stirring oration proposing that the Hawke government implement an important plank of the Labor Party's policy promised in the 1983 election platform.

My Cabinet colleagues listened intently and on occasions granted approvingly. There was no doubt I had carried the day. I felt suitably smug.

Then a strange thing happened. A number of grey-suited figures sitting slightly behind and to the left of the ministers leaned forward and whispered in their masters' ears. Immediately the ministers' warm, friendly expressions disappeared. Their eyes narrowed, their mouths tightened and then they set upon me like hunting dogs. Twenty minutes later I crept out of Cabinet bloodied and bowed.

Still in a state of shock I repaired to my office where the permanent head of my department attempted to console me.

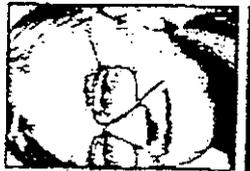
"Who the hell were they?" I asked.

"They, minister," he replied, "were senior ministerial advisers."

The light dawned. My mind returned to 1972 when, after 23 years in the wilderness, the Great One had led us to victory. A new enthusiastic Labor Caucus, swept into office via the "It's Time" campaign, had arrived in Canberra ready to shake off the shackles of decades of conservative rule and begin the golden age of socialism.

Although the more youthful of us were not in the ministry we all knew we would be part of a vibrant team implementing the many excellent policies we had developed in Opposition.

Governments come and go, but advisers go on forever



Barry Cohen

wondered aloud, somewhat impertinently many suggested, as to where they had been during the past 23 years.

Then came that fateful day: November 11, 1975. We were gone and so were they.

Most of the 30 or so MPs and senators who lost their seats went into political oblivion. Not so the advisers. Like migratory birds they winged their way around the continent to find safe haven with State Labor governments. It was a long, dark winter — the seven years of Malcolm — but the advisers understood it remarkably well.

It was amazing how quickly they all learned of the victory of Robert James Lee Hawke. Hags were packed in anticipation so when the puff of white smoke appeared they were on their way. In covered wagons, bullock drays and on shanks' pony they weathered the elements on the long and arduous journey to the nation's capital.

BEFORE you could say, "Grade 1, Level 2 and travel allowance", they were ensconced, if not in their old jobs, ones very much like them.

There were some new faces, but many of the old were there as well. We heard again the familiar refrain of needing to reward those who had suffered. It was amazing how quickly they settled into the lifestyle.

In Opposition, during his aspiring phase, I had gleaned a promise from the future prime minister that he would not surround himself with a Praetorian Guard of advisers. He had looked me squarely in the eye and, without a

hint of a tear, said: "You have my absolute assurance that will not happen."

He must have forgotten. Minutes after I had been sworn in I sought an audience.

"What is it you wish to discuss with the prime minister?" one of the returning advisers asked of me. I was gruffed for 20 minutes and then told he didn't think the prime minister would be attracted to my idea. When I suggested that as a minister I could ascertain the prime minister's views without any help from him, I received a patronising smile and was told I would be contacted. When I got to see the great man, his views — surprise, surprise — were identical to those of the adviser. And so it continued.

I was not alone. My ministerial colleagues found that nothing was achieved before they, too, had been gruffed by the guards. Backbenchers complained they had similar problems with ministers.

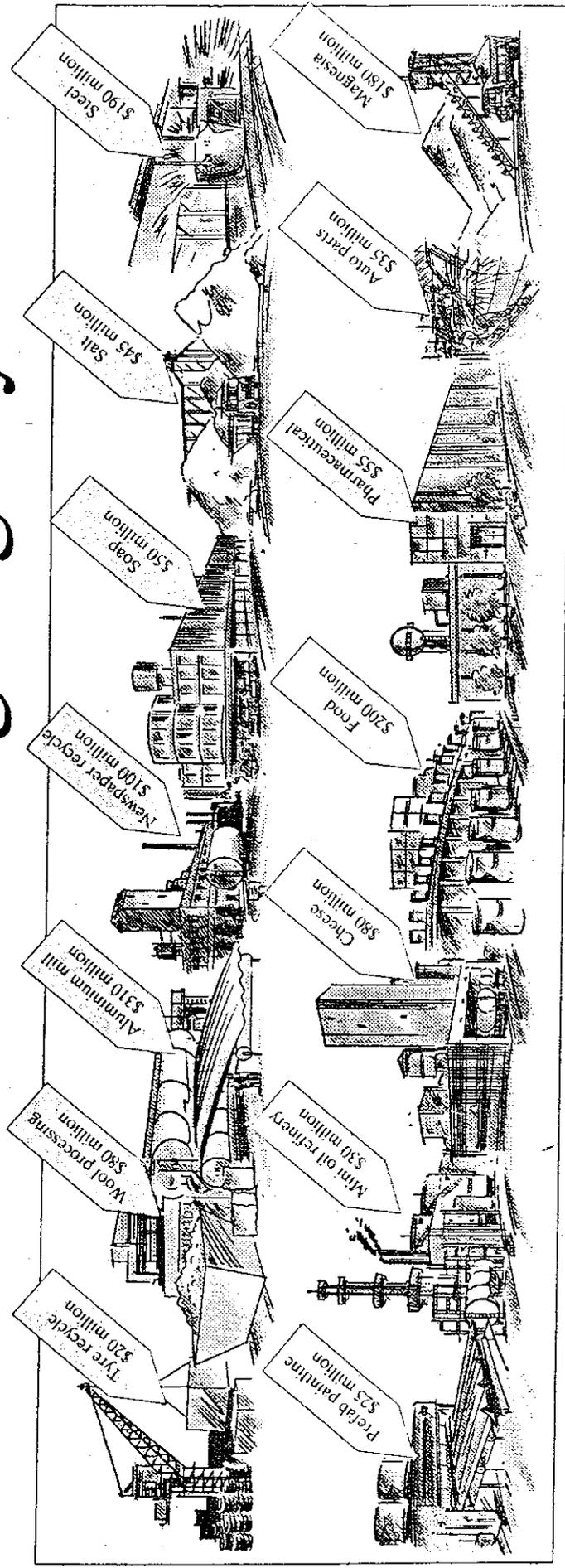
The years rolled on and ministers and MPs came and went, but the advisers remained and prospered. As with their predecessors, they became ambassadors, heads of departments and boards, and so on. Others, due to their proximity to power, were valuable as lobbyists for the rich and powerful. True, they became flunkies, but very rich flunkies. Their service to the party, it appeared, was amply rewarded.

Returning to Canberra I sipped with some Liberal backbenchers unhappy with the lack of communication with their ministers. As I recounted my experiences their eyes widened in recognition.

"But, but that's exactly what's happening to us."

The innocent look on their faces was touching to behold. "Oh, really," I replied.

Sorry. Without an extra \$1,400 million worth of new factories every year, Australia won't be going anywhere.



More and more Australians are coming to understand that our country cannot return to prosperity without a massive growth in our manufacturing industry and our manufactured exports.

But few yet realise the size and urgency of the task ahead.

The assortment of new plants and factories in the illustration above reflects the volume of additional new projects we must generate every year over the next five



Investors with \$8,000 million

The industries illustrated in the composite above have been chosen at random in order to dramatise the size of the additional private industry investment Australia needs.

The costs are based on estimates provided to Government by business.



Bold moves

It is clear that Australia must make bold moves to ensure that we have an environment in which the great majority of our industries can compete and grow, and new industries and firms start up successfully.

Indeed, over the past few years, progress has been made in attacking some

To become more competitive, we need to probe our practices in detail at every stage. We must be guided by our need to:

- Increase our investment in high-tech manufacturing plant and equipment.
- Work intensively at improving our work practices and techniques, so that we are continually improving our efficiency.

... but food lags

ONE sector of the Australian economy — the food industry — has not performed up to expectations in the thrust into the Asian region.

While many other industries from BHP to suburban science labs, and services from Ken Done design to National Mutual insurance, are increasing sales in Asia, Australian food factories are exporting far less than they could, and relatively less than 10 years ago.

Four years ago, Austrade — the Government's export promotion agency — cheerfully predicted that processed food exports to Asia would increase from \$2 billion to \$9 billion a year in the 1990s.

But they are still around \$2 billion, in a market worth \$50 billion and growing by 20 per cent a year.

The industry's closest analyst, David White, has criticised this performance as "stagnant" and branded the record of missed opportunities as "disappointing".

Mr White, a Sydney principal of management consultants McKinsey and Company, and author of key reports on export strategies, said the picture now may be "less depressing" because some large food companies were beginning to emphasise Asia.

The Federal Government, however, is more gloomy. Last year it set up the Agri-Food Council to shake up the food industry, although not much has resulted, apart from more grim reports.

Primary Industries Minister Simon Crean said: "We face a major challenge. Food exporters must do more." But he has just reduced their export target by 20pc, from \$9 billion to \$7 billion, in the year 2000.

Mr Crean said the new figure was "realistic" but it also marks a retreat, because the Asian market will then be about \$200 billion and Australia's anticipated share will be less than it is now. "The problem is that other countries already see the



SIMON CREAN: Disappointed.

potential and are moving to capture it. Unless the Australian industry responds more quickly it may be excluded," he warned.

However, Mr Crean will join Industry Minister Alan Griffiths in Melbourne today to launch a food export marketing campaign in Asia.

The "clean food strategy" is aimed at capturing market share in Taiwan, with Australian business backing the campaign with \$1.5 million. It will be launched at a press conference with representatives from Kraft, Pacific Brand Foods and the Australian Dairy Corporation.

This forecast food exports failure is a black spot on Australia's generally optimistic Asian horizon.

Aside from exports, food imports also pose a threat to Australia — one of the world's great food growers.

David White pointed out that food imports to Australia grew by 50pc in the past decade to almost \$2 billion last year — including \$500 million worth from Asia.

"Food imports from Asia will grow significantly in the 1990s as low-cost, high-quality production is set up in Indonesia, Malaysia and Thailand," he predicted.

Japanese, Asian and multinational companies are investing billions of

dollars in South-East Asian food factories and supermarket chains. Low-price fruit, fish, pet food, noodles, confectionary and other Asian-packaged but Western-style food is already selling in shops here.

The imports challenge Australian food industries while the new Asian factories and distribution chains threaten our exports.

There are several apparent contradictions in all this and one is that imports will rise because we don't export enough. The answer to that has to do with greater production bringing more competitive costs.

And more Australian food sales in Asia — either direct exports or from Australian-owned factories there — can pre-empt potential exporters to Australia.

Mr White warned that Australian food companies not only had to export more but move off-shore, producing nearer to customers.

"Australia has never before had to confront the prospect of a competing modern food industry on its doorstep. It would be foolish to ignore the very real threat of imports from expanding Asian food companies," he said.

In short, Australian food processors face what Mr White calls "serious risks" although they have the ingredients, technology and skills needed for success in selling to and producing in nearby markets that will soon be six times larger than those at home.

What the industry seems to lack is vision. As in other fields, it could learn from the Japanese.

They now process here one-third of the \$1 billion worth of Australian beef exported to Japan — so that the "added value" profit is exported as well as the meat.

Suntory, the whisky-based Japanese company, plans a factory in Victoria, run by Japanese technologists, to make frozen food for Japanese supermarkets.

As a lesson in how to make the lowest possible export profit for Australia from Australian food, the project seems perfect.

2 Nov '93.

Sun setting on Uncle Sam's IT empire

Helen Meredith

The global dominance of the American IT sector was in decline, with its industrial research labs dead and the industry no longer rich, a leading US researcher and academic told a group of technologists on the Gold Coast this week.

Dr David Farber, a former adviser to president Bill Clinton and chief technologist at the Federal Communications Commission, said the US economy was not healthy and the IT industry was perceived to be in deep trouble.

"We are seeing the passing of an era in which we did some grand experiments. The net bubble burst with a vengeance. We had forgotten one very important thing — you need a business plan to survive," he said.

"Now we are having a healthy dose of reality — but it has taken too long to happen."
"In what was once a rich industry, most companies have backed off or destroyed their research. We are creating a lost generation."

The US Government was going to have to accept that industry could no longer fund R&D.

Innovation would have to come out of the experimental science labs of the universities.

It would be up to the universities to generate the next wave of technology, and to do this they would need government support.

If this wasn't forthcoming, the

country's IT would be starved of a future.

Dr Farber stressed that the role of government was to supply money and direction — but not detail.

"Let the people who know how make the decisions — and we all know that no sane bureaucrat is going to take a gamble. What we need them to do is invest," he said.

"We are having a healthy dose of reality — but it has taken too long to happen."

The dilemma was that the bureaucracy lacked IT know-how.

"The current Administration is not hostile to IT," Dr Farber said.

"It just doesn't quite get it. One of the things you find out when you're working in Washington is that decisions made that are critical to our future and that require an understanding of technology are being made in the almost total absence of knowledge."

"We are not alone in this. There are signs of the same thing happening in Australia. You need to get down to Canberra and help government know what the devil it is doing."

The crisis in the IT industry coincided with the onset of the broadband era. This was about to have a profound effect on society, in which the next 10 years would have



Photo: ROBERT ROUGH

Dr David Farber said industry could no longer fund R&D.

as big an impact as computing did in the past 30.

The impetus would be the real arrival of optical technology, promising 80 gigabits per wave per strand — providing the bandwidth of the entire US backbone on a single strand.

"This will have a profound

impact," Dr Farber said. "TCP/IP [transmission control protocol/internet protocol] will probably not survive this. Packet switching is probably the wrong idea for optical networking. Photons don't like to have things done to them — photonic packets look extremely difficult."

Running broadband to every house would pose particular problems for the incumbents.

It seemed likely that municipalities and cities would take on the role of supplying data paths for their inhabitants, on the basis that fibre was no different from services such as electricity and water.

"More and more of us will be unanchored in the future," Dr Farber said. Mobility would be a key component of this.

"There will be a change to the way we do spectrum. It has been wasted," he said.

"In the US we have fenced it off, and done nothing with it, like putting barbed wire around empty paddocks. There will need to be some redefinition of what it is to own spectrum, perhaps looking at something like the UK approach to public access to land."

Dr Farber predicts 3G will have the shortest life of any mobile system in history.

He describes it as the last of the analog systems, saying: "When you look at the prices paid, you wonder where they got their accounting from. The 802-11 technology now starting to pop up all over the world would be the foundation for 4G, becoming a ubiquitous wireless service."

Dr Farber is the Alfred Hitler Moore Professor of Telecommunications Systems at the University of Pennsylvania.

Would Australia be better off making IT?

Report Cherelle Murphy

Australia produces very little computer hardware but by importing the rest of the world's high tech manufactures, local businesses have managed to beat the productivity and growth performance of many of the world's economic engines.

However, experts are divided on whether a local IT-producing sector could drive Australia's productivity growth further.

An international economist at Goldman Sachs, Mr Dominic Wilson, argues that the fact Australia is not a big IT producer is of no consequence to our productivity performance.

As Australia did not have a comparative advantage in producing high tech equipment, it should stay away from such ambitions and devote its resources to production of

goods and services that it could produce relatively cheaply, he said.

This is also the official line adopted by the Government. The principal research adviser at the Productivity Commission, Mr Dean Parham, said, "You get productivity pay-offs from being a smart user - you don't have to be a producer."

This view has led the Government to deliberately avoid fostering a large IT manufacturing sector. Research and development tax subsidies have been capped for a similar reason.

Mr Wilson said Australia had benefited in recent months from not being an IT producer because the manufacturing sector had avoided the slowdown in worldwide demand for high tech products.

Australia's terms of trade (the ratio of export prices to import prices) have also been protected from erosion because Australia

does not produce a large proportion of the high tech goods that have fallen in price. As a net importer of IT equipment, Australia's terms of trade have edged higher.

"Australia has turned out to be lucky in not producing IT equipment ... unlike the US, there has been no collateral damage on local manufacturers from the IT downturn," Mr Wilson said.

But while other players in this debate agree that having air IT manufacturing sector would not have been as beneficial for our terms of trade, they do not rule out the possibility that an IT manufacturing sector would have boosted productivity.

Westpac economist Mr Huw McKay said Australia probably would have had higher productivity levels with an IT manufacturing sector but warned that without a comparative advantage in production, it

would enter the sector as a follower, without a technological advantage.

"That would condemn us to competition at the low-end, mass-produced, commoditised segment of the market. This market segment is high-volume, no-margin," he said. "No prizes for guessing the outcome if Australia tried to bust into that market. We would get slaughtered."

But others are adamant Australia would reap productivity benefits if the Government promoted an efficient IT manufacturing sector.

Professor John Houghton, of the Centre for Strategic Economic Studies, points to recent work by the Organisation for Economic Co-operation and Development which shows IT-producing countries such as Ireland and Korea have also grown strongly. This was because their IT manufacturing businesses were highly productive, he said.

Luck is a very poor substitute for policy

Meaningful economic debate and the implementation of economic policy decisions have been inconsequential in the two months since Mr John Howard's decisive election win on November 10. It is not clear whether this is because the hard work from the Government on a wide array of economic policy issues is being done behind the scenes, or, in what would be a disconcerting development, because little or nothing is being done.

The electorate should be hoping for the former, with key issues to be outlined as the year unfolds.

If not, the risk from a policy vacuum will be that the Australian economy will lag further behind the rest of world, and that relative living standards will be eroded by exchange rate weakness.

The Government may be lulled into a false sense of security as the cyclical swings throughout the world leave Australia with a stronger rate of growth than most other countries. This good fortune does not reduce the need for a range of other economic policy initiatives. A list of issues might include the full privatisation of Telstra, superannuation reform, corporate governance changes, consideration of income tax rates, measures to address declining high school retention rates, Commonwealth debt management, Government expenditure reform and accountability, the next stages of competition policy, labour issues including unfair dismissal reforms, and efforts to push Australia's agenda at various trade forums. This list could be extended.

Without consideration of issues relating to these and other matters of economic performance, Australia's policy management will rely on the good judgement of the Reserve Bank of Australia and its proactive monetary policy settings or further weakness of the Australian dollar as a temporary,

and unsustainable, Band-Aid solution to the enduring problems.

But there is only so much the RBA can do, given its inflation target.

On one measure, the Australian economy continues to ride its luck, with reasonable economic growth and reasonable progress on tackling unemployment, despite the recent cyclical downturn.

It is worth noting the World Bank estimates Australia was the world's third-richest country in 1950, falling to eighth in 1970 and 26th in 1999. This is a poor record.

The policy agenda of the

The risk from a policy vacuum will be that Australia will lag further behind the rest of world.

Howard Government needs to turn to the relative decline of the Australian economy through this period, rather than the insular focus on what has been a run of mediocre policy consideration in recent years. A medium-term policy focus is needed.

The Opposition needs to bear these issues in mind. Labor leader Mr Simon Crean must deliver on his pledge to have an open mind on key policy issues and encourage some well-directed reforms through the Senate. Labor also needs to be active in the policy debate to ensure the complacency that appears to be building in the Howard Government is nipped in the bud. Good oppositions can encourage better policy decisions from government.

If both major parties fail in economic policy, and politicking on key issues leaves major issues untouched, Australia will be the worse for it and by the time of the next election, in 2005, will be further down the economic ladder.

PROCESSED FOOD

In terms of its labor productivity and employment record, the Australian food processing industry trails international benchmarks. Though well positioned for growth, it faces intensifying competition from imports at home and from world-class players in export markets.

A vital part of the economy, food processing employs about a quarter of all manufacturing workers and is Australia's biggest earner of export income from manufactured goods. Its assets include an abundant, relatively inexpensive local source of supply, close proximity to expanding Asian markets, and proportionately low labor costs. However, labor productivity is only 68 percent of the US level. Very low productivity in the bakery, cereals, and other foods sectors account for much of this deficit.

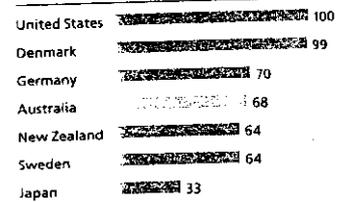
Australia's employment performance was also poor compared with that of the United States and Denmark. Between 1980/81 and 1992/93, a quarter of the people employed in food processing lost their jobs. The main reason was relatively low output growth: only 11 percent during the 1980s and early 1990s, compared with 54 percent in the United States and 32 percent in Denmark.

Six factors – most within the control of individual firms – have contributed to Australia's weak performance. Productivity growth was inhibited by low capital investments (only 60 percent of US sums); the small size of most Australian plants (some of which are below minimum efficient scale); and poor labor relations that have retarded rationalization, investment, and process modernization.

The critical factors constraining output growth were a lack of innovation (partly attributable to the industry's focus on cutting costs and rationalizing operations); a decline in net exports of processed foods of A\$107 (US\$80) per capita; and weak links between food growers and processors, exacerbated by poor supplier relationships and pricing pressures from powerful grocery retailers.

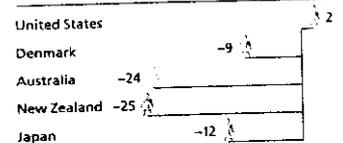
Productivity, 1992-93

Value-added per hour worked
Index: United States = 100



Employment performance, 1980-93

Percent change in hours worked per capita



Closing the performance gap represents a tough challenge. The priorities for companies include expanding exports, improving employee relations, increasing investment, building effective supplier relationships, and boosting product innovation. Government could provide incentives and support by promoting export development, removing structural and cost obstacles to investment, and reconsidering rationalization in subscale industry sectors.

If Australia's food processing industry can achieve significant output growth by increasing exports and innovating to boost local demand, it may manage to maintain or even raise its current levels of employment.