

# The Big Picture

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"News to use & amuse"

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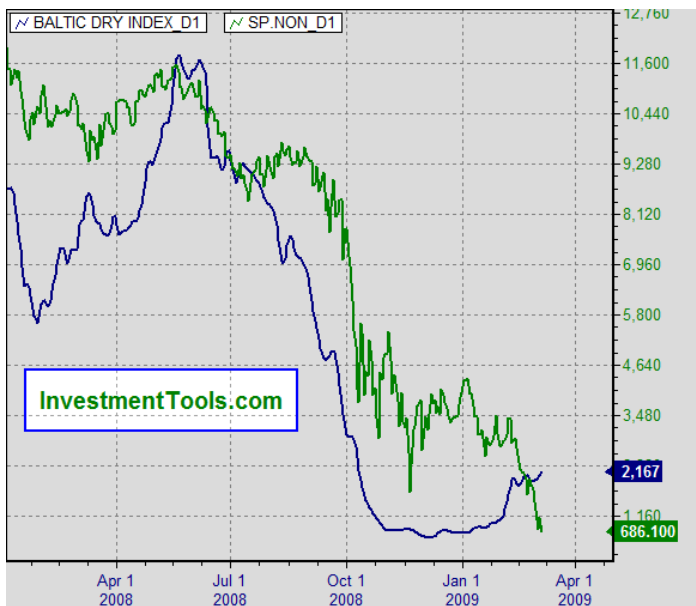


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## Editorial

The Baltic Dry Index (BDI) is a measure of international shipping of dry goods, excluding liquid fuels.

The [chart below](#) shows the BDI and the Standard and Poors 500 – the index of the most actively traded stocks in the US. As you can see they're crashing together and that crash started around Jun 08.



The BDI tells us that international trade has contracted by a massive amount over the last few months of 2008. The reality of this can be seen in this photo of Singapore harbour [taken](#) in January 09.



These images are telling us that the international 'financial' crisis is real and has real world implications.

Now General Motors in the US has declared itself just days from bankruptcy.

The collapse of the shadow banking economy and the ballooning 'securitisation' industry are now causing the productive economy to fail.

Governments have allowed unreal speculative financial 'derivatives' to outweigh genuine productive capacity.

In Australia, the closure of Pacific brands has shocked many. The 7:30 Report revealed that our governments were not buying from local manufacturers because they could acquire the goods more cheaply from overseas. No business – factory closures.

Our governments make no allowance in their purchasing decisions for the contribution that local businesses make to our economy, the taxes they pay or the jobs that they create.

Overseas manufacturers can produce cheaper goods because they don't pay Australian tax rates, aren't required to comply with our dizzying regulations and don't have to pay Australian wages. Of course their products are cheaper!

Governments' lack of action to support Australian businesses and productive capacity is breath taking.

On a parallel note, it transpires that the Victorian government is going to force owners to pay for fencing on properties adjoining public land even when the fires that destroyed those fences came entirely from public property 'managed' by the government.

Another huge impost placed on fire ravaged Victorians.

Now it seems the Murray Darling rescue deal is about to collapse as SA appeals to the High Court for...well...water.

It's becoming more obvious that Australian government has a severe structural problem with our States basically set up as fiefdoms that don't need to conform to any rules or standards, yet are funded by taxpayers who must suffer whatever the government heaps upon them. We have no recourse.

Australia badly needs to cast aside these structures from the past and organise its government systems so that they can integrate their actions to produce positive results for all Australians. This would open the opportunity to save hundreds of billions of dollars from waste, compliance costs and unnecessary government.

All it takes is genuine leadership.

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## In case you missed it

### Financial mess

Global economy needs a makeover: Fraser [TheAge](#)

Manufacturing is Aussie's biggest loser [SMH](#)

Global fix needed: Rudd's view [TheAustralian](#)

The great financial crisis [ICH](#)

### Governance

Blueprint for silence on official wrongdoing [TheAustralian](#)

Treasury must fix rubbery figures [TheAustralian](#)

New problems, old ideas [TheAge](#)

### Environment/food/water/forestry

Like the MDB, rescue deal is dead [TheAustralian](#)

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### Climate

Climate won't wait for recession to end [TheAge](#)

Recession buys time for climate fight: Garnaut [TheAustralian](#)

Solar credits a con say Greens [TheAge](#)

### Health/education revolution/communication/defence

Finger lost waiting for help [CourierMail](#)

Government drives homebirths underground [TheAustralian](#)

### Economy/social/shelter/transport

Urban living makes us dumber [SMH](#)

5,000 a day to be stranded by trains in Melb [HeraldSun](#)

Fire hit farmers forced to pay fencing bill [TheAge](#)

NT Intervention slips away [TheAustralian](#)

Pension system unfair [TheAge](#)

Whitefellas must change to survive [SMH](#)

Push for enforced fire insurance [TheAge](#)

### World

GM days from bankruptcy [Guardian](#)

Coalition war tactics damned in report [TheAge](#)

## Cool hand Khalil?

In a story about the cricketers who were allegedly shot at by 'terrorists', the [SMH](#) reports that the driver of the bus is 'hailed hero' because...

Sri Lanka captain Mahela Jayawardene said in a statement: "We owe the bus driver our lives for his remarkable bravery in the face of direct gunfire. Had he not had the courage and presence of mind to get the bus moving after the initial attack then we'd have been a far easier target for the terrorists."

In other words, when fired upon by rocket launchers and bullets, he accelerated away from the scene.

My question is this – what else would he do? Park? Get out of the bus? Stay and be shot at?

All credit to the guy for what he did but descriptions in the press are almost comically overblown. I wonder how much of the rest of it is true.

Whatever happened, it certainly sounds like the police/security people were in on the attack, although I've never heard this mentioned in the media.

## Insightful staff

Monty Python fans may remember the army colonel who would suddenly intervene in a sketch saying it was 'too silly'. They say life follows art – how about this from a report in the Telly...

Staff at a KFC in the US were hoaxed by a cruel prank caller who claimed to be from the corporate office and told them to test the fire suppression system. When they did, it released a chemical powder into the sandwich area where the employees were working.

The police reported as follows...

...the prank caller had told the employees to go outside and strip and urinate on one another, which is when they became suspicious.

## Clarity is needed

In the world of complex systems it is apparent that our description of a situation frequently contains the seeds of our defeat. Put another way, describing a situation inaccurately can prevent us from taking useful action.

This idea is a key part of the reason that we try to identify the root cause(s) of a problem prior to attempting to deal with it. If we don't know what's causing the problem, then our problem descriptions can become so vague as to be useless.

If our problem descriptions are clear, then we can start dealing with the real causes of our difficulties. There's a big difference between 'these high credit card interest rates are costing me a days pay each week' and 'I just cannot afford to live on my income'.

Metaphorical descriptions are often useless and lead to ridiculous 'solutions'. Remember Wayne Swan's inflation genie coming out of the bottle? What to do? Clearly the solution is to put a cork in it.

If he'd said 'prices are rising due to commodity speculation' we might have had a better understanding.

The way that we describe the problem opens, or closes, approaches to dealing with the problem effectively. Look at this from the NZ Prime Minister...

At a [summit](#), PM Key said the public-private investment fund would be "a pot of investment money to help companies get the access to share capital they need to grow their cake and therefore to create jobs".

Grow cake??

In an earlier report it stated that PM Key said 'we've got to make sure that this crisis doesn't blow the barn doors off the economy so we'll need to reach deep into our toolbox'

Therefore 'use our tools to fix the economy barn doors on more securely'.

How about this from the [SMH](#).

Prime Minister Kevin Rudd says it was impossible for the economy to swim against the tide of the global recession, as growth contracted for the first time in eight years.

So the economy not only has doors - it swims although not very strongly apparently.

Imagine if you're on an aircraft and the pilot announces 'these instruments are bucking like a horse in heat and there's a risk that the baby will get thrown out with the bathwater if we don't hose it down for a delivery'.

If I were a passenger I'd want off ASAP.

It's becoming clearer every day that our politicians don't have the faintest idea what's going on around them, yet they insist on making the decisions. When they describe our world in such peurile terms it's nothing less than scary. They don't seem to realise that their zany descriptions might frighten the punters.

## Word magic

Another problem is that after getting away with the ridiculous descriptions provided in metaphor, anything goes. Politicians can say anything and it becomes true in the saying – a phenomenon known as 'word magic' or 'truth by assertion'.

Thursday's 7:30 Report outlined our rapidly diminishing manufacturing sector including the revelation that Australian governments tend to buy from overseas leaving local, taxpaying firms without any substantive business. Of course, overseas countries with cheaper labour costs, low taxes and almost no regulatory compliance costs can make uniforms cheaper than we can in Australia – but they don't contribute anything to Australia. Local firms do - but their goods are perforce more expensive.

The federal government has already decided that next year they'll reduce tariffs that protect our manufacturers. An interviewer asked Kim Carr, the Minister for Innovation (sic) whether, given all the manufacturing job losses and plant closures, the government might review that decision. He said no, the government is determined to lower those tariffs because the government's role was to create certainty. The interviewer didn't ask 'Certainty about what?' Mr Carr added that Australia would then come out of the crisis with increased capacity to take advantage of the new phase of growth.

How much sense does all that make? How will we have more capacity if it's all gone overseas?

Have you noticed how the US stock market keeps dropping when politicians announce their 'solutions' to the supposed problem? It implies that 'investors' don't believe what they're being told.

Federal Reserve Chairman Ben Bernanke told Congress

Tuesday that any hope for an economic recovery will hinge on the government's ability to prop up shaky financial markets'. [MSNBC](#)

This is code for 'we're going to want more of your money'. To add insult to injury Bernanke then said 'I share your anger'. He should have said 'I share your money'.

His statement also implies that no recovery is possible without financial markets.

How can politicians deal effectively with problems when they only have a cartoon understanding of what's happening and they are taking their advice from the people who are getting all of the money?

And what is the advice? - 'Give us more money'.

Can't our politicians see through this? Can it really be that difficult?

No wonder the markets keep freaking out.

## Pieces of news

The growing gap between rich and poor is, at least in part, due to governments applying theories that result in particular groups being favoured. Note the similarity to Howard's policies.

Here's a description by John Foster, professor of sociology.

Neoliberalism promoted incessant breaking of unions, forcing down wages, cutting state social welfare spending, deregulation, free mobility of capital, development of new financial architecture, etc. One way to understand this is the enormous need for new cash infusions to feed a financial superstructure that was voracious in its demand for new money capital, which it needed to leverage still more piling up of debt and financial speculation. Insurance companies, real estate, and mutual funds all provided infusions into this financial superstructure, as did the state. All limits were removed. Under these circumstances workers were encouraged to use their houses like piggy banks to finance consumption, credit cards were handed out to teenagers, subprime loans were pushed on those with little ability to pay. Individual retirement packages were shifted toward IRAs that were tied into the speculative financial system. This had all the signs of an addictive system. In these circumstances, too, the real economy, particularly production of goods and manufacturing, was decimated. In the introduction to *The Great Financial Crisis* we include a chart covering the period since 1960 showing production of goods as a percentage of GDP in a slow, long-term decline, while debt as a percentage of GDP is skyrocketing over the same period. All of this meant a massive redistribution away from working people to capital, and to those at the pinnacle of the financial pyramid. [ICH](#)

In our Western system, monetary policy, that is the creation of new money to fuel growth, is proportional to debt. When we're so mired in debt that we cannot repay, the entire edifice collapses.

*"Nothing we do for banks is for banks. It's all for the benefit of the people that depend on banks -- the businesses, the families, the students -- that require credit in order to do things that are important to their future."*

**Treasury Secretary Timothy Geithner PBS Jim Lehrer News Hour**

We've created a system where credit, and therefore interest payments, are a pre-requisite to growth.

Untrammelled growth is constrained by our resources, one of which is our environment. The damage that we're doing to our climate will cost us untold trillions because we don't measure those costs and are thus incapable of responding to the situation because we have chosen to blind ourselves to it.

There can be no economy without an environment. There is no way that politicians can make decisions based on a compromise with the environment or the science on which global warming is based.

A study last year by international consultants McKinsey on the costs and potential of different options for reducing greenhouse gas emissions, firstly at a global level and then for specific countries including Britain, the US, Germany and Australia, found that the costs of reducing emissions by 2020 and 2030 were quite affordable, especially when compared with the growth in incomes over the period.

In the case of Australia, they showed that a 30 per cent emissions reduction below 1990 levels by 2020 and a 60 per cent reduction by 2030 could be achieved by developing technologies and energy efficiency measures costing \$2.9 billion, or an average cost of \$290 per household per year. This is based on a carbon tax of \$65 a tonne.

[TheAge](#)

Our politicians are untrained in real world affairs. Many come from abstract backgrounds like government, law and finance. Perhaps because of that lack of real world experience, they are prey to dogma and utopian ideas.

The irony of the post-Cold War period is that the fall of communism was followed by the rise of another utopian ideology. In American and Britain, and to a lesser extent other Western countries, a type of market fundamentalism became the guiding philosophy. The collapse of American power that is underway is the predictable upshot. Like the Soviet collapse, it will have large geopolitical repercussions. An enfeebled economy cannot support America's over-extended military commitments for much longer. Retrenchment is inevitable and it is unlikely to be gradual or well planned.

[ICH](#)

Here's a description of part of Australia's system...

Imagine a welfare scheme that gave minimum wage earners nothing, but handed out \$11,000 a year to those on the top income tax rate. Surely if any political party ever suggested such a scheme they would be run out of parliament and have their doors kicked down by commercial current affairs programs.

Yet, such a scheme already exists, and almost nobody says anything about it.

[CPD](#)

Check out the Centre for Policy Development's report on Reforming our Welfare State.