

The Big Picture

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“News to use & amuse”



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Editorial

As the world has become more interconnected, more specialised and uses more technologies, so the need for decision makers to be experienced has become more important. It is no longer appropriate for representatives of the common man to make complex technical decisions.

Our whole electoral system has become a 'bait and switch'. We elect people to represent us then they do a totally different job, as if they're expert problem solvers who should make all of our decisions for us – from how much CO2 we can put into the atmosphere to what our minimum wage should be. That is a fundamental error because we're populating the decision making system with people who don't have the requisite skills to make the decisions. They were elected on a totally different basis.

We elected them to represent us, not make all of our decisions for us. The qualities required for the two roles are completely different. If we were electing people to fix the climate, it's quite likely that none of the political candidates would qualify.

Check this, Rudd argues that the financial crisis is created by 'greed' and 'neo liberalism' – but those descriptions do not provide any useful imperative for action.

What's needed are clear, evidence based descriptions of the situation that help us figure out what action to take. Harvard economist Niall Ferguson...

"The harsh reality that is being repressed (in the media) is this: the Western world is suffering a crisis of excessive indebtedness. Many governments are too highly leveraged, as are many corporations. More importantly, households are groaning under unprecedented debt burdens. Worst of all are the banks. Some of the best-known names in American and European finance have balance sheets 40, 60 or even 100 times the size of their capital ...

"The delusion is that a crisis of excess debt can be solved by creating more debt. Yet that is precisely what most governments currently propose to do. The solution to the debt crisis is not more debt but less debt." [NiallFerguson](#)

I developed a [graphic](#) way to look at the evidence for Ferguson's description that shows the external debts of the countries in order. If Ferguson is correct, our governments are marching steadfastly in exactly the wrong direction with their 'stimulus' plans. Instead, we need to become more self sufficient to become more self sufficient and hence less dependent on debt.

Russian author Dmitry Orlov uses the Soviet collapse to describe some of the things we need to do.

It is the differences between the two superpowers, that I believe to be most instructive. When the Soviet system collapsed, many people lost their jobs, everyone lost their savings, wages and pensions were held back for months, their value was wiped out by hyperinflation, there were shortages of food, gasoline, medicine, consumer goods, there was a large increase in crime and violence, and yet Russian society did not collapse. Somehow, the Russians

found ways to muddle through. How was that possible? It turns out that many aspects of the Soviet system were paradoxically resilient in the face of system-wide collapse, many institutions continued to function, and the living arrangement was such that people did not lose access to food, shelter or transportation, and could survive even without an income. The Soviet economic system failed to thrive, and the Communist experiment at constructing a worker's paradise on earth was, in the end, a failure. But as a side effect it inadvertently achieved a high level of collapse-preparedness. In comparison, the American system could produce significantly better results, for time, but at the cost of creating and perpetuating a living arrangement that is very fragile, and not at all capable of holding together through the inevitable crash. [ClubOrlov](#)

It's a huge mistake for us to rely on our politicians to find solutions to our problems. They don't have the skills, experience or ability to figure out what's required and they are so filled with hubris they cannot get people in who do know what to do.

Now, rather than limiting themselves to meetings, politicians also invoke inquiries, investigations and reports. But the result has been the same. Historians will look back at the financial crisis that erupted last year and conclude that, rather than taking direct, comprehensive action, politicians occupied themselves with no-business meetings, no-business reports and no-business plans, which hid the fact that they had not a clue what they were doing.

[TheAge](#)

Even for the federal government, NSW bad boy, Michael Costa expresses no confidence in Rudd's abilities, instead describing him like a self obsessed version of ABC Hollowmen.

Rudd's tendency towards hubris must be difficult for his minders to control at the best of times. Like Peter Costello's smirk, it is an insight into his political psychology.

Rudd believes that everything will go his way. This belief, and the fact that it is not based on a sound understanding of the problems that we face, as his amateurish essay in The Monthly demonstrates, but rather on his misplaced self-confidence, is disturbing. If things go wrong it's not because he hasn't understood the problem and enacted appropriate solutions, it's because others haven't understood what he was trying to achieve. [Costa](#)

For more on how the government manages our money see 'Lateline reveals all' below.

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In case you missed it

Financial mess

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Hubris & vaudeville but little sound policy [TheAustralian](#)

Drones to the left, jokers to the right [TheAge](#)

Governance

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Dishonesty on all the big issues [TheAge](#)

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Climate

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Telstra hikes call fees [TheAge](#)

Doctor sacked for speaking out [TheAge](#)

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National road chaos looms [TheAge](#)

ANZ sends more jobs to India [TheAge](#)

Japan calls police over whaling clash [TheAge](#)

No power for new NSW trains [SMH](#)

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Royal Comm allows 43 seconds per victim [TheAge](#)

National restaurant standardisation to come [Australian](#)

NSW makes changes to child safety [SMH](#)

World

US financial system insolvent: Roubini [ICH](#)

Meeting the needs of no-one [TheAge](#)

Collapse watch video – check Dmitry Orlov [ICH](#)

What \$1 trillion looks like [PageTutor](#)

Lateline reveals all

Another lesson in money management. ABC Lateline presented the deeply embarrassing fact that some of Rudd's 'stimulus package' was paid to long time overseas residents and deceased people.

“Provided all of the eligibility criteria are met, payments will be made to the deceased estate of the deceased persons.” ATO

It's worth asking how such recipients would contribute to 'bailing out' Australia's economy. More details in the [SMH](#)

Pollies

Laurie Oakes reports on Garrett's concert that...

Garrett, twitching and gyrating on stage, full of life and passion, was a far cry from the colourless, cautious figure we have got used to in Parliament House.

It prompted the thought: He used to be somebody - now he's a politician. [HeraldSun](#)

Which highlights our situation rather nicely. As Laurie says...

Modern politics sucks the personality out of those who practise it. Politicians, even the lowliest of backbenchers, don't only have to toe the party line. They are discouraged from being themselves or chancing their arm in any way. Even injecting a bit of originality into the way they deliver approved "talking points" is frowned upon as unnecessarily risky.

What we've got in Australia is posturing – unqualified politicians acting as if they understand what's going on, and using their skills at manipulating public opinion to push the party line on the rest of us.

...those who make it into Cabinet, as Garrett has done, become even greyer and more risk-averse. The process produces a race of John Howard or Kevin Rudd clones.

From the moment he entered politics, Garrett worked hard at turning himself into a tall, bald version of our controlled and disciplined Prime Minister. Sadly, he succeeded.

Oakes description makes them sound like GI Action dolls that the party puts up in various positions and who are expected to say the right words, with the right tone and delivery.

This isn't democracy – it's theatre.

Oh Dear

The world's best job looking after an island in Queensland has attracted some unusual applications.

One candidate, 'Julia' has now been reported as being a trainer for female porn stars...her video application is [here](#)

Clicking on the pictures below the video screen triggers more video applications for the job.

Not being a child of the TV world, I hadn't seen how people had allowed their ideas to be distorted to fit the medium, consequently the applications for the job were something of an education. It all looks like a rerun of the 'Pollies' article above, as if we are determined to create artificial enthusiasm by using the tools of television.

I suspect that we're going to need to focus a lot more in the future on the tools that operate on the real world.

Remake global financial system

Thursday 5 FEBRUARY 2009

Former PM Paul Keating writes in [Crikey](#):

Global financial confidence, once destroyed, requires myriad positive events and a heavy convergence of them to counter ambient pessimism and gloom.

The recent series of government packages, notwithstanding their scale and speed, has had little demonstrable effect on the level of confidence or the outlook for ongoing activity. Indeed, the number of new and significant packages may begin to peter out as the public accounts of most countries can no longer cope with the growing burden of insolvency or assume further private sector risk. This context underlines the urgent need for the Group of 20 industrialised and developing nations meeting in London to construct a new paradigm to resuscitate the world financial and economic system.

What is needed is a new global economic and political settlement. The first priority should be to make the G20 a permanent gathering. The leaders should meet at least once a year and, in current circumstances, twice. A permanent G20 structure, representative of the major debtor and creditor countries and the most strategically powerful ones, will sound the death knell of the Group of Seven leading industrialised nations. This is two decades too late, but better late than never.

The second priority should be for future international economic policy co-ordination to be conducted by the G20 -- its leaders, finance ministers and central bankers -- not by the International Monetary Fund, which has failed so miserably in this task.

The third priority should be radically to restructure the IMF, disbanding its board and replacing it with a governance structure that truly represents the wider world it claims to serve. The Fund should still manage its balance of payments emergency facility but under the general supervision of the G20.

The Washington establishment may resist such changes, while the European members of the G7 will do all they can to hang on to the old postwar structure. Yet the utility of those arrangements began to erode when the Cold War ended and China began its rise to the powerhouse it is today.

The pump-priming of government budgets through deficits and recapitalisation of banks offers only a temporary respite to the crisis. Fiscal policy has its limits. President Barack Obama is already portending a US federal deficit of \$1,700bn (€1,354bn) this year, or about 13% of gross domestic product and told the US public to expect deficits in the trillions for years.

In the short term the world needs the US stimulus, but the longer term antecedents of the crisis can only be dealt with when deficit countries save more and spend less and surplus countries do the opposite. This savings imbalance will not be remedied while the larger creditor states are locked out of the hierarchy of global institutions. Left to themselves, they will go back to their own defensive game. Brought into the fold, on a credible basis, they may think it is safe to change habits.

For instance, the government of China has no intention of dealing with its surpluses by letting its real exchange rate redirect national resources, especially when such action risks putting it into the hands of the IMF. Following the crisis of 1997, what every Asian government fears is the political consequence of capital outflow -- to wit President Suharto of Indonesia, who was forced out of office in 1998.

Until international monetary governance is democratised, or at least is more representative, no major developing country, creditor or otherwise, is going to put its head into the IMF cum US Treasury noose.

But to make a G20 structure that is truly dynamic, the US must answer two strategic questions. Is China a commercial competitor that has to be strategically watched or is it a building block in a new multi-faceted world? Should Russia have an organic place in a more representative world system or should it continue to be regarded as incurably untrustworthy?

A positive resolution of these questions along with reform of the old Bretton Woods arrangements can usher in a more workable world structure. The question is whether Mr Obama will recognise this opportunity at the coming G20 meeting or whether the advice of old advisers will keep him, and the rest of us, in the current economic and strategic rut.

A burst of inclusion is the only way to make the world anew. If it happens, the impact on confidence will be profound -- outweighing all the packages put on the table to date.

Rudd/Wong eat own ETS

TUESDAY 10 MARCH 2009

Canberra correspondent Bernard Keane writes in [Crikey](#):

If you were frustrated by Penny Wong's smug evasion on 4 *Corners* last night about when and why the Government has caved in to big polluters while developing its White Paper, that's okay. The "why" was tortuously extracted by the Greens at Estimates the week before last.

Christine Milne [diligently pursued](#) the issue with Wong and her officials. In particular, why, when the Government's own modelling of the ETS conducted by Treasury had demonstrated there would be minimal "leakage" of either jobs or carbon, was the Government bending over backwards to reward big polluters with 60% or 90% of their permits free?

Climate Change Deputy Secretary Blair Comley -- previously a senior Treasury economist -- admitted the point when he said "if you only had one of those objectives and it was purely a carbon leakage objective, then, other things being equal, you would have less generous assistance than is provided under the policy."

So why was the Government *more* generous? Wong summarised the issue best when she replied, "We did take into account the Treasury modelling, which has a range of assumptions in it, as you know. We also took into account the consultation that was engaged with between different sectors of industry as well as the community and the government about the impact of the scheme."

In short, the shift to extend handouts to big polluters, thereby neutering the ETS, was undertaken in response to "the consultation that was engaged with between different sectors of industry as well as the community and the government". Hands up anyone in the "community" who was consulted. Anyone?

That much we guessed. But officials from the Department of Climate, under questioning from Senator Milne, went further and explained the basis for the Government's change.

Milne: What I am hearing from you is that there is no real data

there at all to support your argument that they deserve up to 90% on the basis of leakage.

Comley replied: I think the argument that industry is only raising the carbon leakage argument is not the experience I have had in consultations. It is both the carbon leakage and the question of the level of profitability for particular firms.

So let's be clear: the Government's rationale for amending its already-generous ETS so that it rewarded big polluters was not to prevent the loss of jobs and emissions overseas, but to ensure the profitability of big polluters.

As the [Australian Conservation Foundation](#) has shown via a study conducted by Innovest, the biggest beneficiaries of this approach will be Rio Tinto (Australia/UK), Bluescope Steel, Alcoa (US), Norsk Hydro (Norway), Alumina Ltd, BP (UK), Shell (UK/Netherlands), Onesteel, CSR, Chevron (US) and a number of other multinationals and large local companies. They'll share around \$1.5b in free permits.

UK, Hong Kong and Japanese power companies and the NSW and Queensland Governments will also reap more than \$2b from the electricity sector adjustment arrangements. By 2015, nearly half of assistance to emissions-intensive, trade-exposed industries will be flowing offshore to multinational companies based in the US, UK and Europe.

The biggest risk of the Government's approach is not carbon leakage or jobs leakage but profit leakage.

With luck these issues will be pursued by the Senate inquiry agreed between the Greens and the Coalition last night. The terms of reference are still to be finalised by the respective party rooms this morning but will go beyond the Wayne Swan-initiated TOR that the Coalition, in a Malcolm Turnbull smartarse moment, originally wanted to exactly copy. The Coalition's own inquiry, by Centre for International Economics's David Pearce, has been delayed a fortnight after Pearce was flooded with submissions inspired by the Swan shenanigans. The report is due with the Coalition within a week, and will be released with a Coalition response after that.

That will keep a lid on the issue within Coalition ranks for the moment, but it will have to come off at some point.