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Submission to the Inquiry into Ecologically Sustainable Development by Commonwealth Departments and Agencies.

Productivity Commission, Issues Paper September 1998

Dr Neil Byron, Presiding Commissioner, <esd@pc.gov.au>

Dear Dr Byron,

GENERAL OBSERVATION

Ever since the idea of Sustainability for Australia has been discussed, it was the belief that Economics delivers wealth to Australia. That occurred right from the 1970s, through NSESD, the National Greenhouse Strategy, ICESD, right down to this Issues Paper. IT DOES NOT!

Economic activity DIMINISHES Australia's wealth. The purpose of economic activity is to make non-renewable resources and agricultural products (grown with topsoil subsidies) available to commercial interests all over the world for conversion into corporate profit and ultimately private wealth. That wealth is then used by its owners as a means to exert power over our government to facilitate further steps in the same process. The delivery of power to a few is the essence of economic activity. It is the direct opposite of sustainable existence of the many - now too many - people on this earth in a caring, impact minimising way. That way would conserve resources for as long as possible. There would be even greater hope if population numbers could be controlled down to the permanent carrying capacity of earth.

The power play over what is left of natural resources involves fundamentally three parties: the Australian people, the corporate world and, between the two, the Australian government. The people, as the electorate, are primarily interested in their own welfare, in functional social systems and in the continuity of a "good life". The corporate world is only interested in corporate profit and private wealth of the owners. It is the government's role to provide the feedback controls that are supposed to keep the nation functional in an acceptable way. Since any democratic government exists solely by the goodwill of its electorate, the expectation exists that the nation's interests should be the overriding focus for any government actions. Conservative governments tend to openly curry favours from the corporate sector at the cost of neglect of social systems and the environment. These factors are crucial for the sustainable functioning of our nation. Therefore, the fundamental character of the whole of government will determine what degree of sustainability can be achieved for Australia.

ECONOMIC ACTIVITY DIMINISHES SUSTAINABILITY

The sustainability of any nation is entirely dependent on its "capital" type non-renewable ASSET WEALTH. Australia's wealth is represented by its mineral resources, the fossil fuels (gas, coal and oil), forest timbers, arable soils, water and space, as well as low population numbers. The combination of these factors makes Australia per capita THE richest nation in the world, according to World Bank figures of 1995. Economic activity depends upon and is only possible with inputs from this asset wealth. There can be no economic activity without a constant supply of resources that are used up in the process. Therefore, economic activity has a NEGATIVE impact on our sustainability as a nation.

Economic activity does NOT generate local sustainability factors. Australia exports materials and fuels to other nations of the world. Thereby it diminishes its own base for the future, hence compromises its own sustainability. The Issues Paper perpetuates the common error of confusing

Australia's ECONOMIC activity with the intrinsic WEALTH of this nation. Assets are valued for what they fetch on world markets. However, that value is totally dependent on perceptions, market prices and exchange rates. In the end, dollars cannot be used as raw material for anything!

Thus, repeating, Australia's asset wealth is the base on which its sustainability is founded. The economy USES up natural resources. The process of converting resources into tradeable products and services, liquid assets, is primarily undertaken by corporate commercial interests for the purpose of generating corporate and ultimately private wealth of a few. Although this activity is broadly termed "development", it consists of the EXPLOITATION of non-renewable assets. That process shortens sustainability.

The use of non-renewable resources increases their scarcity. As a consequence, this will increase the cost of exploration, substitution etc. Finally, the cost of all products rises. Hence, economic activity contributes to inflation. Inflation is thus a consequence of resource exploitation. Our government seems to be unable to bring domestic inflation, as experienced at our supermarkets, under control. This proves that our government, through its avowed favour of commercial interests, is putting Australia's sustainability at risk.

Excessive, frenzied economic activity ultimately de-stabilises normal economic processes. Speculative activity, especially if it is divorced from production (futures trade, exchange speculation, hedge funds etc), endangers national economies through its effects on the exchange rate and credit ratings. Thus churning is destructive for the nation's trading climate.

Thus, economic development is an EXPLOITATIVE activity that shortens SUSTAINABILITY. Although some factors of production may be more plentiful than others, this aspect only affects the degree of sustainability. It does not change the fact that economic activities are self-limiting. Moreover, where economic exploitation of assets is encouraged to GROW (Issues Paper, page 5, Box 1) through increased domestic use and uncontrolled exports of all kinds, sustainability is massively compromised.

The exploitation aspects of economic activity impact on all the other categories named by the Issues Paper. It impacts on the environment and the equity distribution in the general population. The superimposed dogma of competition further impacts badly on the nation's social cohesion. These factors cannot be restored to the same condition in which they have been in the past or were even yesterday. The only "balance" between economic exploitation and environmental protection (page 3) that could be achieved is between the RATE of exploitation and the time horizon of sustainability. This is a trade-off: the greater the rate of exploitation, the shorter the available sustainability.

It is acknowledged that there ARE certain demands by the nation on its assets through its own existence. There is a need for life support and equity. That requires a certain minimum rate of exploitation to meet domestic demand. It always exists and must be met. It grows with population growth from both natural increase and immigration. It further increases with expectations that flow from "development". Hence both population numbers and expectations of betterment have a negative impact on sustainability. Population control is not even mentioned in the Issues Paper.

The effects of economic exploitation are IRREVERSIBLE, hence permanent. It is exactly that aspect, of irreversible diminution of natural assets, that gave rise to the wish for sustainability of the environmental and social health and amenity of this nation (page 3). The irreversibility of the impact of exploitation is absolute, given by the Second Law of Thermodynamics, the Entropy Law (Weissmann, 1997, URL <<http://dove.mtx.net.au/~gerhard>>).

Thus remedial action, as often envisaged by environmental economists, can only be done by using MORE, NEW material and energy for the repairs. It is not a regeneration of the material used, which is irrevocably turned into waste material and possibly pollution. Thus environmental repair AFTER economic activity CONTRIBUTES to shortening the sustainability of resources. Therefore environmental impact must be considered and assessed BEFORE economic development starts. The Issues Paper is wrong in expecting economic activity to produce the means for abatement efforts (NSESD, page 5, Box 1, "Guiding principles", fourth dot).

The same applies to "improving the efficiency and effectiveness of development" (page 7). Maximising the financial effectiveness of economic development (also known as Economic Efficiency, return on capital or profitability) contributes to the inflation rate and depresses the exchange rate. The automatic reaction to a low exchange rate is an increase in export volume, hence an increase in resource exploitation. This contributes to the increase of private wealth but erodes sustainability. It damages environmental and social quality. The end effect is that the amount of national asset capital that is converted into private wealth is increased. Economic, environmental, social and equity considerations CANNOT be integrated. At best, they can be traded off against each other to minimise loss in sustainability. There IS NO win-win.

INCREASING EFFICIENCY IS AN ANTHROPOMORPHIC FURPHY

Increasing the physical efficiency of manufacturing processes comes at the cost of increased loss of sustainability. It usually involves the use of special materials and high technology with their own impacts, like the use of exotic metals obtained from sand mining. It exacerbates environmental and social impacts (through alienation and unserviceability), hence compromises sustainability.

Not infrequently, industry focuses on "improvements" of a few percent at tremendous input efforts. These efforts are rather pointless, if not further prejudicing sustainability. Some recycling efforts are in this category and electricity based substitution will be mentioned below.

Recycling or reprocessing can only be useful in a few cases, where material can be recovered with less energy than what is required for refining new material. Recycling can reduce fuel input, hence enhance sustainability under some circumstances, as in the case of Aluminium, but the relative energy inputs, particularly for transport, have to be carefully evaluated.

The substitution of electricity for other forms of fuels, because of environmental considerations, leads to decreased overall efficiency. Electricity is generated at around 30% thermal efficiency. That has to be considered as shortening sustainability. "Power generation" is in reality a refinery process that turns raw fossil fuels into a highly refined, precious energy medium. The electricity permits enhanced process control and lower environmental impact, but at the cost of shortened sustainability and, through the replacement of jobs with machinery, increased social compromise.

WEALTH IS CREATED FOR CONSPICUOUS CONSUMPTION OF A FEW

The economic concept of "generating (even creating) wealth" is the collecting together, selection and refining of available material and energy to build the wealth of a few people. Thorstein Veblen observed in the 1920s that economic activity has the single aim of "Conspicuous Consumption". He also said that all economic systems will eventually fall into the hands of administrative and technical manipulators, experts, regardless of ownership structures, public or private. He thus concluded that governments must maintain AUTONOMOUS control in the interest of good national housekeeping. Thus, the present government's effort, of locking the nation into globalization and world market competition, is abandoning controls to outside powers. In the case of the proposed MAI, this led to considerable controversy. Other processes with negative impacts on sustainability are treaties that open Australia to foreign interests through such instruments as the Financial Services Agreement and the secretly signed Special Data Dissemination Agreement. Thus, the public review of international treaties is of significance. The adverse effect on sustainability of inappropriate international treaties is another topic that the Issues Paper totally ignores!

In economics, the idea is propagated that "development" (and trade) somehow results in human wealth and enriches the world. It is assumed that it is possible to improve material and non-material wellbeing in a "sustainable" way without impacting negatively on other people's equity, now or in the future (Brundtland Report). This is tantamount to the supposition that perpetual motion is possible, that humans can "breed" things by consuming raw materials and energy and ejecting waste back into the environment. This is an unsustainable proposition. The total throughput through the economy ultimately appears as waste that impacts, on cumulation, as pollution. It appears as smog, acid rain, salination, desertification, noise, turbulence, radiation, chemical effects and as Greenhouse Effect,

Hole in the Ozone Layer etc. In essence then, "development" is the irreversible consumption of non-renewable resources. It is absolutely not sustainable.

Thus, the principles of sustainability require a fundamental shift in the Economic Paradigm. Questioning of these principles have not been contemplated, let alone implemented, by ANY modern government anywhere around the globe. That is certain to meet massive obstruction by vested interests, not only in the market but also in government departments with economic interests, like Treasury, in their pursuit of corporate and private wealth and power. Your brave attempt at re-kindling the discussion that has languished for a few years now, is indeed heroic.

The last attempt to which I contributed was the August 1991 Draft Report of the Ecologically Sustainable Development Working Group "Energy Production" under Professor David Throsby, which does not seem to have made much impact. On the contrary, the effect of the National Grid is to increase electricity consumption through lowering prices and facilitation of access, including now the possibility of nuclear electricity generation.

The answer to which government departments should be involved in sustainability discussions is certainly "ALL DEPARTMENTS". Exchange and inflation rates involve Treasury and Finance Departments. Population growth involves Health, Immigration and Tourism Departments. Mineral and fossil fuel exploitation involves Departments of Mineral Resources and Energy. Arable soils and water and international treaties involve Primary Production, Export and Trade Departments. Efficiency concerns the department of Industry and even the Productivity Commission. Social concern of employment and social services involves departments active in Industrial Relations and Social Services. The teaching of the fundamentals of Physics, like the Second Law of Thermodynamics, is a matter for general education of the Members of Parliament and of all Commissions.

Treasury and Finance together with Social Services could usefully discuss a Social Minimum Wage and a universal Transaction Tax to redistribute private wealth while dampening economic activity in order to enhance sustainability. Thus sustainability considerations concern broadly the QUALITY OF GOVERNMENT across the board.

I welcome your efforts while I deplore the conceptual discrepancies between economics and national sustainability. These discrepancies are evident in your Issues Paper that lumps together "economic, environmental and social considerations as well as equity issues", regardless of their divergent qualities.

COMMENTS TO THE ISSUES PAPER, SEPTEMBER 1998

The Productivity Commission's statement on its operating principles and policy guidelines states its "concern for the community as a whole, rather than just the interests of any particular industry or group". However, the avowed policy of the Howard government is to further the interests of the business sector, that is economic aspects, which are based on bare-faced competition. This is in direct contradiction of the Commission's expressed social concerns.

The TERMS OF REFERENCE state on page ii:

a. ...evaluate how ... Government ... incorporated ESD into their ...programs;

The first candidate for consideration would be, I thought, Treasury and Finance Departments. It could be their job to introduce a Resource Rental Tax, Transaction Tax on the Banking and Finance Sectors and regulate the export trade in fossil fuels and minerals. Instead, they do everything possible to INCREASE these activities that grossly prejudice Australia's sustainability. The Banking and Finance Sectors and all exports are EXEMPTED from the proposed GST. This is a gross misinterpretation of reality!

b. review existing mechanisms ... policies and programs in changing community and corporate behaviours in ways that promote ESD outcomes;

Yet the unfettered maintenance, even enforcement of the Hilmer Competition Policy through the ACCC forces the corporate sector to cut corners wherever it can. Corporations will try to evade facing the costs of environmental impact they cause for the nation. They will permit working conditions for labour deteriorate and reduce wages wherever possible. This is in gross contradiction of the stated concerns for the maintenance of environmental, social and equity goals. While the Competition Policy sets trading parties into open conflict against each other, the population at large is taken to task and chided over outbreaks of interpersonal and interracial hostility. If the government is confused, how can the people react sensibly?

c. analyse ... implications ...

This had been the task of the Natural Resources Assessment Commission established under Ros Kelly, the Minister for the Environment in the Keating government. It had the duty to establish and chart non-renewable asset wealth, with a view to monitor later the dynamics of exploitation and depletion rates and thus establish how fast sustainability was being destroyed. Nothing has been heard of that body. Was it dismantled in the interests of more efficient government? I can't help but be cynical. It may be a worthwhile exercise to re-establish such a body with the task of monitoring the impact of economic activity, the depletion of asset wealth and its conversion into liquid private wealth.

d. develop conceptual frameworks ... for incorporating ESD ...

I would suggest a course in basic thermodynamics as a top priority for members of parliament. They must learn about the irreversibility of resource use. They must also experience the environmental, social and economic impacts on the Australian population from their own policy. All professionals are expected to undergo continuing education. How much more important would that be for those who set the levers!

e. and f. develop... and recommend ...

I would require as a pre-requisite for any such action that the Paradigms on which this government operates be subjected to a thorough examination. This should be made in the light of the remarks made above in the first section of this submission. The economic framework for government policy formation and delivery seems deficient in many aspects and is perceived to be so as borne out during the federal election.

2 ECOLOGICALLY SUSTAINABLE DEVELOPMENT

Box 1: The Core objectives "economic development that safeguards ... future generations" and that "provide[s] for equity within and between generations" is a contradiction in terms. It is of utmost importance that economic development is recognised for what it is: the exploitation of national resource assets to generate immediate corporate private wealth. That activity cannot avoid the decrease in the resource base available for this and future generations, particularly if population numbers are permitted, even encouraged to grow. Population growth is ignored by the Issues Paper.

The Guiding principles beg the "integration [of] ... economic, environmental and social and equity considerations". The last three can only be traded off against the exploitation impacts espoused under the economic mindset. To speak of integration is a misrepresentation of the competition spirit that is enforced in economic activities.

That a "growing and diversified economy can enhance .. environmental protection..." is based on misinformation put about by the corporate sector. That sector seeks to be permitted to exploit any national wealth while pretending to save the means for remedial action sometime in the future. The corporate sector hopes that it will never be asked, since governments usually change before impacts become prominent. By that time, profits are safely locked up.

Community involvement is pointless, if a government favouring the business sector consults first and foremost that sector so as to govern for that sector's benefit. That sector is the main contributor of the

spirit of exploitation for corporate private wealth. Sustainability is its least concern. It wants profits now!

Page 10: "...the extent to which Australia achieves ESD will depend largely on decisions made by industry, business and the community..." and "How effective have ... policies been in changing community or corporate behaviours in ways which promote ESD outcomes?"

It is not good enough to set the framework etc, since under the Competition Policy a "dog eat dog" attitude is not only encouraged (through the absence of resource rental and lax environmental protection regulation), but demanded. Furthermore, compliance with those demands is REWARDED through Export Enhancement Programs, Excellence in Export and Tourism Achievement Awards that maximise the impacts and encourage growth of exploitation. Treasury has made its fundamental aim the growth performance of the economy (in the mistaken belief that it delivers more jobs). This takes no regard of the consequences for the masses of Australians in their daily lives, to say nothing of sustainability. A more satisfactory, less impacting, hence more sustainable life could be offered to more Australians if a Minimum Social Wage financed by a universal transaction tax, particularly from the "speculative" and finance sectors, were introduced.

Pages 14 and 15: on the policy implications, ... in relation to social issues such as health and safety .. See Shearman, David, 1997: "Green or Gone" - health, ecology, plagues, greed and our future, Wakefield Press.

The duty of care promoted to apply to natural resource "owners" (mineral resources are the property of the Crown!!!) ... to prevent harm to the environment (IC 1997). It is not, as I suspect, the ACTIVITY of mining processes that do the damage to Australia, but rather the stripping of the mineral wealth assets, which puts Australia's future prosperity at risk.

The DPIE has been ... unable to indicate the outcomes .. This is natural, since the efforts are REMEDIAL after the damage is done. That is indeed why a precautionary attitude is required. Assets must not be are NOT used up without national benefit. Export and economic exploitation should be avoided before assets are alienated and converted into private wealth, hence lost to the nation. This is also behind the furore stirred up by the proposals surrounding the MAI discussions. It is now the focus of the recent initiative by the OECD to attain the same outcomes under a proposal for a Transatlantic Economic Partnership (TEP). ALL such attempts at stripping Australia of its autonomous future life support ought to be determinedly opposed by the Federal Government instead of its indulgence of economic doctrine promoted by the various "experts".

Page 17, ".. focus on outcomes and outputs": The outcomes and outputs are reasonably predictable: the most impacting scenarios are the most likely to take place. This is ensured by maintaining present processes of economic direction setting. The nation destroying results of the Export Liberalization and Competition Policies are clear. Once the damage is done, there is NO WAY that conditions of the past can be re-established. The arrow of time is absolutely irreversible. We can only prevent similar impacts in the future. The fundamental refocussing on preserving the national wealth through regulation and taxation should be introduced as soon as possible and rigidly enforced, so as to avoid or discourage irreversible impacts before they take place. It is necessary to expose where unsustainable economic processes are simply promulgated for corporate, hence personal enrichment at cost to the country.

Yours faithfully,

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