

FACSIMILE

Date: 28 March 2002

To: Mr Ed Williett
National Competition Council
0392857477

From: Robert Caldwell
"Radley"
FORBES NSW 2871

Number of pages including this one: 11

Dear Sir

Please find attached submission from R Caldwell and P MacPhillamy regarding water reform.

Supporting documentation is being forwarded to you by post.

Yours faithfully

R CALDWELL

"Radley"
FORBES NSW 2871

28 March 2002

Mr Ed Willett
Executive Director
National Competition Council
GPO box 250B
MELBOURNE VIC 3001

Dear Sir

SUBMISSION FROM R CALDWELL AND P MACPHILLAMY TO THE NATIONAL
COMPETITION COUNCIL REGARDING WATER REFORM

Please find below list of concerns and reference to supporting material (Part A)
and economic concerns (Part B).

1 Terms of Reference

Three categories:

- Property rights
- Provision for the environment
- Questionable targets

2 Flawed Structure of NCC and COAG. Tranch payments are made but
there is little compliance.

3 The DLWC (NSW Government) have a habit of cherry picking policies and
selective use of data to support their policies, ie: requiring full cost
recovery but with-holding property rights to water. Can you stop this
practice?

4 I am concerned that the National Competition Council (NCC) and COAG
will be biased by the DLWC (NSW Government).

5 The method of calculating allocations

- The resources are assessed (water in storage)
- Minimum Inflows are assumed
- A 24 month horizon is assumed
- High priority requirements, environmental flows and carry-over water
needs are met first (500 GL/year)
- Left-overs are then allocated for general security allocation, ie:
irrigators are ranked last

- Dry years = median or less then this implies only enough for HS, environmental and carry forward requirements (500 GL/year)
- See history of inflows which implies 40 years in one hundred with zero allocation.

See Attachment A – Water Supply Variability in the Lachlan River

- 6 Environmental flows have relegated general security allocations to least priority. A consequence of this is zero irrigation allocations in dry times, (40% of years) reduces reliability to an unworkable level. See Attachment B – Letter to MDBC
- 7 No modelling for drought and expected failures
- 8 I expect failures in the next dry run of years and these deficient policies will have to be corrected
- 9 There is an inconsistency between "high value use requiring high investment high reliability" and "traditional low cost supplementary irrigated production.
- 10 I expect there will be no irrigation allocation for drought relief, ie: over-priced.
- 11 Irrigator share is relegated to last under present system. Capacity sharing has been rejected by DLWC, so denying an equitable share to irrigators.
- 12 MDBC Cap is not appropriate for Lachlan diversions. Little science and the precautionary principle. See Attachment C – Percentage Diversions
- 13 The precautionary principle is inappropriate and no substitute for good management
- 14 Science is available for better management, eg: University of Melbourne. See Attachment D – Water Allocation Strategies for the Lachlan River Valley
- 15 Hydrology – Inflows
Climate variability
See Attachment D – Water Allocation Strategies for the Lachlan River Valley
- 16 The resource depreciates rapidly with time and distance from Wyangala Dam. There are serious doubts with the water balance (see Productivity Commission quote). See Attachment D – Water Allocation Strategies for the Lachlan River Valley
- 17 Full cost recovery is not fully attributable to irrigation. Some costs are sunk because dams were constructed by governments for social reasons.
- 18 Irrigation licences, sleepers and dilution of existing rights, eg: Repeal of 13F Water Act to avoid negligence claims.

- 19 No compensation for loss of water rights.
- 20 Once an allocation is sold the on-farm assets will become stranded and written down.
- 21 Public good and cost sharing - Irrigators are being asked to pay far in excess of their fare share, ie: all research costs. See Attachment E - Implications for regulated water users and Managing Australia's Inland Waters
- 22 The NCC advocate consumption pricing but fixed charges form two-thirds of my water bill. This is contrary to NCC and COAG policy. Please address this problem, ie: in 40% of years (dry) the DLWC will be sending out large bills but delivering no water (zero allocation). See Attachment F - IPART Submission and Attachment G - Productivity Commission
- 23 The Marsden and Jacobs report contains misleading information. See Attachment H - Letter to Marsden and Jacobs
- 24 "Water and the Australian Economy" have failed to take account of existing users and licence holders. See Attachment I - Water and the Australian Economy
- 25 I think it is unrealistic for environmentalists to ask that the environment be restored to pristine conditions in a real economy.
- 26 Professor Peter Cullen and the Nature Conservation Council in NSW advocate disregard of water rights in NSW. This is inappropriate. See Attachment J - Patience runs dry on water gridlock - Professor Cullen and Lachlan Valley farmers forced to go with the flow.
- 27 Free trading of water drives up the value of all water and adds to the cost of production. This avoids paying compensation for property rights. It also avoids Treasury concerns about impacts of allocation reductions to the economy. I think this is an over-simplification and I expect ramifications.
- 28 I have concerns that water reductions will reduce productivity and impact on the Australian economy. The reductions have not been costed. I do not think that our economy can afford any reductions in production and exports. See Attachment K - Taking control of our destiny.
- 29 Rural decline - See Attachment L - Reversing Rural Decline.

Yours faithfully



ROBERT CALDWELL

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Submission to the National Competition Council

Following is:

- second part submitted by P MacPhillamy
- first part submitted by R Caldwell

Notes and attachments not in electronic submission.

This is the second part of a submission by Mr Robert Caldwell and myself. Mr Caldwell's part of the submission is dealing with the glaring mistakes in the handling of the water issue.

My submission is to show that the National Competition Council (NCC) and the policies directly tied to it are not only wrong they are detrimental to the economic health of all Australians.

All Governments of today use two ploys that are cynical and dishonest.

Firstly strict terms of reference are used to obtain a desired result that is usually wrong. For example strict terms of reference initially imposed on the Lachlan River Management Committee specifically excluded the discussion on salinity and carp. These two most important issues were excluded from discussion for five years. That five years was completely wasted.

Secondly all Governments have systematically down graded their departments and replaced their advice with consultant reports. Consultants have a very human habit of giving the advice that the payer wants to hear.

It is completely wrong that the NCC, consisting of five part-time councillors and a staff of 20, can direct the policy of a country, particularly when it is being proved wrong right around the world. I believe history will have some harsh comments to make about the NCC policy, cost recovery, deregulation, etc.

The whole COAG episode is a scandal. Towards the end of the original meeting Don Blackmore of Murray Darling Basin Commission put up six issues that required investigation. The last two were the amount of water being used and water quality. The people attending were tired and just took the last two to implement and the other four were ignored.

COAG was not law but an agreement. Its implementation has been a disgrace. A Government and its bureaucrats that can shrug off a \$5b FOREX loss and not pay compensation to farmers for state water can only be condemned.

The whole concept of competition policy, deregulation, cost recovery and free trade will not stand up in the world today. In Australia the whole concept is ridiculous as there is no way wages will be completely deregulated in Australia. As Paul Krugman points out, if wages are not deregulated exporters have to be compensated. In Australia we do the opposite by adding on extra costs wherever possible.

The following tables are from the Statistics Group Parliament House Canberra courtesy Mr Bob Kattar MP. These figures from Statistics Dept. Parliament House.

Performance Indicators	1972	1996	2000
Unemployment	2.2%	8.9%	6.4%
Current Account	\$403 M (surplus)	\$20.3 b (deficit)	\$33.7 B (deficit)
Interest on Foreign Debt	\$202 M	\$12.8 B	\$13.5 B
Bankruptcies	2,648	17,340	23,306
Tax Revenue	8.9 B	116 B	149 B
Interest Rates	7%	10.5%	8.05%
Value of \$AUS			
\$ US	\$1.28	\$0.79	\$0.55
Y Jnp	Y 384	Y 86	Y 59.1
Real Ave. Weekly Earnings			
Change over prior 10 years	Up 42.9%	Down 1.2%	

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Australian figures for food and live animals:

	Increase exports	Increase imports
1982		
1999	167%	415%

Unemployment - the true unemployment figure is nearer 2 m (Note 1.) and at a cost of \$20-30 B / year. (Note 2.)

How The World Works and the Main Two TheoriesHayek: 1899-1992

Economic Rationalism and conservative theories. Intervention in free market only causes calamities such as inflation, unemployment, recession and depression. He was Professor at Chicago University 1950-1962 and was the forerunner of Milton Freeman and Chicago School of Economics which a large part of the world is following with dire results. The English speaking world follow this and don't seem to realise the other parts of the world follow a different economic theory.

List: 1789-1846

The crucial difference to the above is that List advocated deliberate development for automatic growth. List and others were concerned amongst things with "Market Failures". That is where market forces produce an undesirable result. Pollution is the first to mind. If law allows factories to dump pollutants all will do so with a very undesirable result. Not to do so would leave an individual with higher costs and so out of business. List drew on the history of the time. Britain encouraged and helped manufacturers. USA deliberately discouraged foreign competitors. Both were very successful

History shows that deliberate manipulation rather than laissez-faire creates industries. Edward III in England created the woollen cloth industry and Elizabeth founded the mercantile marine and foreign trade. Colbert in France was the instrument for growth in France. Closer to home we have Mr C Court Premier responsible for Woodside development by giving in WA a substantial Government contract for the supplying of gas. In Queensland the electrifying of the railway from Emerald to the Coast saw the enormous growth of coal exports from practically nothing.

List contended that in the long run a society's wellbeing and wealth are determined not by what it can buy but rather by what it can make. Consider the position of Australia now. Committed to USA and may have to go to war. No national airline for defence purposes, not enough ships or planes to patrol our coast line. No effective secondary industry to make what we require. Minute army and airforce.

In the 19th century the Africans, Latin Americans and Asians were subservient to the European Powers because they could not make the weapons the Europeans could.

As late as 1987 any steel imports into Taiwan had to be approved by China Steel, Taiwan's biggest steel maker.

The economics that have grown largely over the last generation, namely Germany, Thailand, Korea and Japan did not grow in an automatic and natural way but rather to Lists theory. Their development was planned.

Britain by 1850 was beginning to preach free trade and had just abolished the Corn Laws. However, over the previous 150 years had strong armed its way to prosperity by violating every rule of free trade. Britain wanted prices right only after getting to the top by have prices wrong. Cheap competition from the colonies forbidden, the Crown subsidised and

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encouraged investment in factories and fleet. A strong British Navy and domination of trade routes.

American economic history has followed much the same pattern. American support for free trade is only a recent policy. It started at the end of the Second World War.

President Lincoln is reputed to have said "When we levy manufactured goods abroad we get the goods and the foreigner gets the money. When we buy manufactured goods at home we get both the goods and the money."

The US tariff was 30% plus for most of the 19th century on top of this USA very heavily into industrial planning. Mostly under the name of Military Defence but was in effect rebuilding infrastructure, picking winners, promoting research and co-ordinating industrial growth.

For example in early 1990's one half of R&D in the US was funded by Federal Government. In 1988 US defence R&D was \$40.1 b compared to \$1.1 b in Germany and \$.046 b in Japan.

At the end of the 19th century US Navy searched for ways to build bigger and stronger warships and as a result fostered the most advanced steel industry.

In 1789 England was ahead of USA in virtually every category of manufacturing. Congress gave Eli Whitney a contract to provide 10,000 muskets within 28 months. A nearly impossible task. Whitney worked around the clock and produced the mass production system. Standardisation of parts had arrived.

In a single decade USA, due to one man, had burst into the front rank of manufacturing through Government picking a winner. As mentioned earlier Woodside and the coal industry in Queensland was created in a similar fashion.

In USA while industrialising consumer welfare took second place, promoting production and picking winners came first. A heavy tariff on imported British rails in 1880 made expansion of rail more costly but a result was the emergence of an efficient steel industry.

The great industrial successes since Britain are America, Germany under Bismarck and Japan since World War II have all violated the rules of laissez-faire, their underlying economic strategy much the same.

Alice Ansder in the late 1980's book "Asia's Next Giant" compared Korea to Japan and Germany and said in none of the cases did the country get the prices right to the contrary they deliberately rigged the market and got the prices wrong in order to achieve the right result.

Prescriptions for Survival

My focus today is upon the problems of rural Australia. But I can't do this though without casting a wider net because city people are facing the same problems.

Those of you in my age group will be able to remember when things were different. Politics meant something. One could identify clear differences between the major political parties.

The parties themselves were not keen to underline these differences. Labour downplayed its commitment to socialism; the other side pretended not to be conservative.

But Labour stood up for worker interests. And the Coalition Parties helped advance the interests of business, large and small.

But between them they recognised the value of small business, including farming, as engines of our continuing prosperity and social cohesion.

Market forces had their place but also acknowledged was a necessary role for government.

Policy was made for the benefit of Australians; and this included relating to the world as it

We acknowledged the problems of our farmers, selling against the world. We did not ask them to stand alone. Especially after the collapse of the preference arrangement our farm exports enjoyed with Britain, after that country joined what was then the European Economic Community.

After World War II we knew growth and prosperity would depend on a larger population, industrial development and full employment.

Capital and labour resources for this would have to come from overseas.

To remain profitable and to provide well paid jobs the new industries required protection from import competition.

There would be some extra cost for the farm sector, but they, in turn, would enjoy the better overall returns from a larger home market.

This coming together of city and farm interests became the basis of Australia's post-war development and prosperity. In the process, Australia developed its own brand of interventionist capitalism.

Manufacturing industry drove the new push for development. It had to. But the farm sector remained as important as ever. Feeding a growing population and fuelling the foreign exchange coffers.

The new prosperity could not shield agricultural producers from the cost/price squeeze and low export prices. World prices usually being those that the wealthiest producing countries can afford to accept for their surpluses.

It is still so. For farm exports it has been for all the twentieth century - though the benefits of volume exports to Britain and the capacity of farmers to absorb the additional costs in the early days, managed to conceal it.

Cost price pressures on farmers arise from one simple fact - competition.

Farm production consists of mostly large numbers of small producers selling an undifferentiated product to a relatively small number of buyers. Competitive pressures push down prices. Producing more to protect income only further depresses prices.

Most of farmers inputs are manufactured goods. Here the opposite is true. Relatively few manufacturers are selling differentiated products to a large number of customers. The competitive pressures are entirely different.

In this difference lies the true explanation for the cost price squeeze - especially for farmers heavily dependent on exports.

Sixty years ago marketing boards were created to help deal with this imbalance of competitive pressures.

At the same time farmers were shielded from competition from low cost imports.

Orderly marketing arrangements and border protection for farm products are the flip side of manufacturing industry protection.

Farmers, however, were encouraged to believe that industry protection was the cause of their cost/price squeeze.

If that burden were lifted, they were told, they could compete internationally. It was a seductive, though fallacious, argument.

Farmers now know that the removal of industry protection has not relieved them of cost/price pressures.

Nor has Australia's commitment to free trade given them better access to external markets. And, combined with the application of competition policy, it now seriously threatens their

position in the domestic market. The more open our market becomes, the closer domestic prices will be to world prices. Bad news for farm income.

And demonising manufacturing industry protection overlooks another critical factor. Our low price system which helped farmers improve overall returns depended on city workers retaining well paid jobs.

Here's why!

Farm support policy in post World War II Australia depended upon a combination of taxpayer support and consumers being willing and able to pay more than world prices for Australian grown farm products. Both depended upon a fully employed and well paid workforce.

Industry protection was a key to all this. Without it, increased import competition lifted unemployment levels. Those unemployed workers previously paying tax became a charge on welfare.

And reducing tariffs on imports meant smaller revenue collections.

Budget revenues, reduced by this combination of effects, made farm support programs more difficult to finance. Ultimately, budgetary pressures persuaded governments to put farmers under the same pressure from import competition as manufacturers.

The problems wheat growers in this area are facing arise from those decisions.

It isn't your fault, or the fault of circumstances beyond either yours or the government's control. It has been imposed on Australia by conscious acts of policy.

The problems can only be fixed by reversing those policies.

Rebuilding manufacturing industry and recreating full employment for city workers will allow a revenue stream to be created whereby income support for farmers can be re-established.

In the meantime, farmers must ensure that their representatives - both political and industry - recognise that your immediate survival is utterly dependent upon the preservation of the domestic market for Australian grown produce. This is true in almost every sector.

Exports can never be a replacement for domestic sales because they will almost always be a depressed world prices.

It is also true that farmers interests in all States will best be protected if they speak with a single voice; preferably in concert with disadvantaged city workers. (3.)

The following are some instances of failure of competition policy and its consequences:

The failure of the electricity supply for three weeks in NZ. The failure of gas supply in Victoria.

*4. Kenneth Davidson of "The Age" is very outspoken about what is happening to the telecommunications industry.

*5. The shambles of electricity competition policy in California is best described by P Krugman of New York Times

*6, 7, 8 & 9 Have to be read to get a full picture of the complexity and the disaster that is being created worldwide.

*10 The egg industry was thrown open to competition in 1999 and farmers were receiving \$1.32 for eggs that were retailed for \$1.91. In February 2000 farmers were being paid 78.5 cents that were being sold for \$3.31.

*11. A paper by the Centre for Economic and Policy Research shows tha for the last two years China, Luxembourg and India. And

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they do this by having controlled economics. Just the opposite to politically correct economic theory.

*12. Failure of Competition Policy.

*13, 14, 15, 15 & 17 Are all part of trying to understand the issues involved.

*18 Is I believe, very interesting in that it shows a different train of thought.

19, 20 As important as any other issue and very much neglected by the multitude of ideologists devoted to the destruction of our economic system. How can any modern country exist without basic industries and agriculture, eg steel, light bulbs, consumer goods. The last maker of electric light bulbs has just shut down?

21. Should be compulsory reading

Yours faithfully

Peter MacPhillamy

Peter S MacPhillamy

Notes *Marked thus are supplied

- 1 News Weekly p 22 17/11/01
- 2 Work for All, Auiggan & Langmore, University Pros 94
- 3 Colin Teese was Deputy Secretary of the Department of Trade
- 4 * The Age 4-6-01
- 5 * Krugman NY Times electricity deregulation
- 6 * Bush & Enron
- 7 * Enra and electricity competition policy
- 8 * World Bank & competition policy
- 9 * Interview Radio Show
- 10 * Egg Industry
- 11 * Emperor Has No Growth.
- 12 * Where Competition Policy fails. Prof. Kolsen
- 13 * Era of Globalisation Over. Prof. Gray - he was an adviser to Mrs Thatcher's Cabinet.
- 14 * Rural Revolt
- 15 * McGovern
- 18 * World Bank - Growth
- 17 * Trade - Evan Jones Ass Prof. Sydney University
- 18 * Farmers - efficiency or economic power
- 19 Property Rights - Policy Spring 2000 - Roger Sandall
- 20 Property Rights - Primary report NSW Farmers June 01
- 21 House of Rep Committee on Banking Fiance and Public Administration.
Inquiry into aspects of NCP Reform Package.

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