

THE HEALTH OF NATIONS

by

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THE HEALTH OF NATIONS

PREFACE

I have had a singularly fortunate life both at a personal and a career level. This has allowed me to study, observe and develop systems of various sorts - engineering systems, business systems and government systems. Systems of management and control have been an interest of mine from the time I graduated as a chemical engineer. Then as an operations researcher, manager, businessman and computer specialist I have been able to pursue this interest in other areas and other countries.

Here I want to subject myself to the discipline of setting down various ideas that I have had in order to satisfy myself that they have a measure of coherence. If the result is of interest to others then so much the better.

Much of my thinking has been concerned with what is of benefit to my native land, New Zealand. But I have lived for two years in each of Britain and Australia. I have set up computer software businesses in New Zealand, Australia, Fiji, USA and China and spent many months in each country on business. I have travelled extensively and visited a number of Asian and European countries.

All of these experiences as well as many books, articles, newspapers and people have influenced my thinking. I will acknowledge here only my wife and family. I have always been able to rely on them for a good discussion – even if we cannot agree.

The world has many problems. My focus here is on the systems of governance that might allow at least some of those problems to be solved. If a country is ungovernable it will not solve its problems. And if it is not governed efficiently the country will take a very long time to solve its problems. A central question is

whether governance should be at the nation state level or not.
This is the first question to consider.

CHAPTER 1. NATIONS ARE SICK.

Just a few centuries after they first appeared in their modern form nations appear to be approaching their end. They are afflicted by many diseases, a number of which may prove to be terminal.

The nations of the world are being assailed from within and without. They suffer from the globalisation of commerce, the clamour from indigenous and other minority groups, the ideology of the market, other ideologies, the population explosion, the changes in religious adherence and dominance, economic instability, technological change, political uncertainty, unemployment, climatic change and other resource problems. The unifying factors of the past are disappearing and the new forces may require different groupings for stability.

The purpose of this book is to examine a few of these things, to consider what their effects may be and whether there is, in fact, any need to resist the changes that will otherwise occur. And if so what can be done. The various chapters may be seen as essays on particular topics and can be read alone. But they are each a part of a much greater whole than can be encompassed here.

While it has been said that “no man is an island” it is equally true, in the same sense, that no nation is an island in the modern world. All nations are affected to some degree by the actions of other nations and their populations. The most extreme cases are those geographical island nations which will disappear beneath the sea if, or when, global warming progresses a little further.

There are many physical issues where solutions to the problems and governance of a nation are not within the power of its national government. For example, many nations are reliant on other nations not to use all of their water supply. Others have their water or atmosphere polluted by their neighbours. Still

others have flood problems because of the milling of timber further up the watershed. And so on.

There are even more nations which are economically dependent on their trading partners. In many cases nations cannot even feed their populations without imports of food. The industries which allow these nations to export in order to pay for their food requirements are often also dependent on imports.

Again, while there is still some trade carried out by barter nowadays there is a great dependence on the international financial system.

At the time of the birth of the nation states few of these problems existed, or not in any acute form.

So should national governments now give up and withdraw from their traditional roles? Or only from some of them? What, or who will move in to fill the vacuum left by a government withdrawal? What will be the shape of the resultant society? What is the balance between the common good and the individual's freedom?

I cannot answer all of these questions but I will try to establish a framework for consideration of different current trends before attempting to come to grips with the question of what we should do about some of the relevant issues. And then, possibly, to consider what we can do, and how. In brief, should we treat the patient - prolong the agony, encourage euthanasia, or allow the patient to die in its own good time.

WHAT IS A NATION?

The Oxford dictionary defines a nation as “a community of people of mainly common descent, history, language, etc., forming a State or inhabiting a territory”. One must then take the definition

of State to get the full sense of nation. A State is defined in a number of ways. The relevant one is - “an organized political community under one government”. This begs the question of what we mean by government. In turn this is defined as “the system by which a State or community is governed”.

When different people speak of a nation they may mean all, or only some, of these things. I will generally use the term “nation” to mean geographical areas which have a common system of government. This also begs some questions.

For example should we now regard Europe as a nation. There is great diversity in the governance of the different countries which are now coming together in the European Union. Yet the same is true of the United States of America. Governance in the different states varies greatly. Yet we commonly regard the USA as a nation. We do not yet commonly regard Europe in the same way.

However let us press on to use our language as best we can. And note that I will use the word country as being synonymous with nation! We may well decide that there is no simple answer - that it would be better for some nations to be redefined, for some to be swallowed up and for some to continue as they are. Let me assert that the basis for such decisions should be what is good for the individual people of nations, the nations as a whole and the world wide collection of nations. Clearly compromises between these objectives are necessary. But the compromises determine the “health” of nations. Different decisions for different nations will also obviously be necessary but let us try to establish some of the factors that should be taken into account.

HOW CAN WE MAKE DECISIONS?

We are dealing with issues of the utmost complexity. I have long admired the work of Professor Jay Forrester of MIT. He did some of the earliest computer studies to model the effects of what

appeared, at the level of the participant, to be perfectly rational rules for the reordering of goods by each participant in a distribution chain. The computer model showed that at each successive level the changes in demand were magnified so that the rules generated their own disaster. A 10% increase at the consumer level generated a 180% increase at the manufacturing level, five levels up the chain.

In study after study it has been found that what appears rational at the local level is a collective disaster.

Professor Forrester characterised this as “The counter-intuitive behaviour of complex systems”. In the real world he was able to show how many well-intentioned acts of governance had led to the opposite effects from what had been intended. These range from slum clearance projects driving the people they were intended to help out to the fringes of the city so that they could no longer get to their places of work, through to acts of appeasement which have led to violence.

Where one is trying to control an outcome and there is only one “variable” – the setting of interest rates, or the positioning of a single lever, etc - and this is sufficient to achieve the desired level of control then anyone of modest intelligence should be able to accomplish the task. Where one has to position two levers, i.e. control two input variables, so as to control one output the task is more difficult. With two outputs which are each affected by the same two levers the task becomes appreciably more difficult. Few can accomplish such control without a great deal of training. By the time one gets to three or four variables some mathematical and statistical help is probably needed.

Beyond this, computer modeling can help to improve ones intuition about what will happen when you change one of the variables but, even if the model is a decent approximation to reality, it becomes very hard to internalise the experience and to be clear on what changes to make to the control variables in

order to respond smoothly to changes in output requirements. Inevitably, if you have too many variables to consider, it is easy to make matters worse rather than better by changing the controls.

My friend Professor Arthur Williamson makes the same point by quoting his favourite authority, Spike Milligan, who has written:

"Thirty days hath September and no wonder
All the rest have peanut butter
All except my dear Grandmother
She had a little red tricycle
But its mine now yes it is"

where each line makes some kind of sense but the totality is a nonsense. It is often so with policies where one cannot see the whole picture. Only with hindsight can we be wise.

Similarly the computer simulations on "World Studies", such as Meadows "Limits to Growth", have shown that where there is a limit it is not approached smoothly and asymptotically as one might expect. Instead the variable overshoots the limit and then collapses to well below the limit before increasing and overshooting again followed by another collapse and so on. The model studies show that, for example, whatever the carrying capacity of the Earth, without control the population will grow to greatly exceed the sustainable population and will then collapse before again growing and so on.

So, in the infinitely complex real world, what should we do?

In my early years as a Chemical Engineer I was greatly interested in the problems of controlling complex chemical plants. Here one could repeat experiments and determine the characteristics of the various pieces of equipment. But it was still a demanding intellectual problem.

Essentially, one had to establish control systems for each piece of equipment so that the inputs could be regulated to determine

the outputs. But the output from one plant might be the input, or part of the input, to the next and so on. With many pieces of equipment the whole issue became extremely complex, especially as any piece of equipment may need to be shut down for maintenance or repair. One rapidly learned that a principle of good design was that not only should there be controls (often involving an intelligent operator) on individual plants as well as some feedback process to communicate requirements both up and downstream but that there must be buffers between the different plants so that if one had to be shut down in a hurry there could be an orderly response both up and downstream.

I then had my first contacts with computers in 1957 and have been deeply involved with them ever since. Naturally, I look to this experience also to see if there is anything to be learned from it. Hopefully, we can learn a great deal about managing a complex system by studying other complex systems so that we do not have to experiment with whole nations, or the whole of humanity, in order to learn whether an ideology or a system of management is likely to be successful or not.

It is of course absolutely vital for us to have a system of management of our affairs which actually works. Otherwise all of our discussions on what we should be doing economically and environmentally are a complete waste of time.

Are there in fact some "laws of complex systems" of the sort envisaged by Isaac Asimov in his science fiction writings which might be of use to us in this question of political ideology. Where should we turn our attention to discover such laws?

The most complex systems ever devised by man are the computer systems that have been developed within the lifetimes of most of us so that their history is within living memory. This makes computer systems a particularly appropriate field of study

for learning what management techniques we can expect to succeed or fail when dealing with complex systems.

CHAPTER 2. THE COMPUTER EXPERIENCE.

One of the fascinating things about computer systems is that we know precisely what every little instruction in them does on its own but when we join thousands of them together the results are often quite unforeseen. Sometimes this is because of mistakes. I think that there are only three things we can be sure of in life. They are death, taxes and mistakes. It is essential that we design our systems, both human and other systems so that they are "fail safe". This is not easy as we see from the experience of the 1998 electricity blackout in Auckland, New Zealand, a similar experience a few years before in New York, and the disaster at Chernobyl.

Computers always do what you tell them to do. But if you give the wrong instruction the computer does something that you did not intend. In a complex program it is very easy to fall into this trap. Programmers refer to these errors as "bugs". One problem is how to design programs to minimize such errors and to make their detection and elimination easier.

Another problem emerges with larger systems. This is how to design the whole system so that all of the different people concerned, including the programmers, can be properly informed about what the system is meant to do. Also so that the programmers, or others, can test whether or not the system (which may include many programs) actually does what was intended and so that the inevitable mistakes can be corrected.

When we started to use computers they were of much smaller capacity than they are today. While quite incredible things were done on these early machines they were simply not capable of performing the increasingly complex tasks that are now successfully accomplished.

Even these modern tasks are not nearly as complex as the world wide economy with all its interactions. But the different management approaches that have been tried with computer systems can, when correlated with the numerous successes and the numerous failures, provide some valuable insights into the requirements for achieving a successful operational system that stands the test of time.

It cannot yet be said that there is a "sure fire" technique that guarantees a successful computer system but on the other hand it can be said that there are systems of managing the development of a computer system which guarantee its failure.

A recent New Zealand example may be the aborted INCIS system for the New Zealand Police. Here the development by IBM ran more than three years over time and was then abandoned after the expenditure of some \$100,000,000.

The authorities have not made public any reason for the debacle. However one speculation is that the contractor played an old game and, having got the contract, encouraged "change requests" so that the price could be escalated each time. But they were too successful and the system collapsed in the welter of such requests. An analogy is that if you try to make a Boeing 737 by adding bits to a Tiger Moth you eventually come to the sickening realization that the machine will not fly.

We have learnt painfully slowly that, apart from other design compromises that must be made, we must sacrifice some theoretical efficiency in order to develop systems that can be made to work by ordinary people. Complex systems must be designed to be developed, installed and managed by ordinary people otherwise we may never get them to work at all - let alone to work reliably. In the early days there was a fetish about writing programs for "efficiency". We wrote programs with logic flows

between routines that looked like figure 1. The object was to get multiple use out of the code in each subroutine. Even with the smaller systems of that time the number of data paths to be tested became horrendous so that it rapidly became close to impossible to find a bug. Everything was so interconnected that you could just get lost.

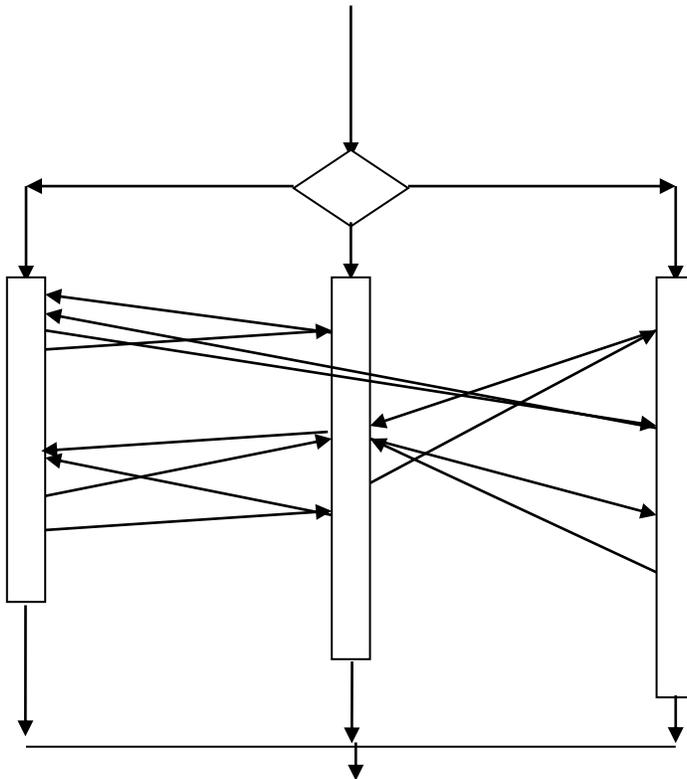


Figure 1.

With computer systems built according to this "efficient" philosophy we found that if you ever did get the system working you were frightened to make a change because the results were unpredictable - not only would the change do what you expected but it might do a number of other things that you did not expect. Unless you were in a position to stop everything while you tested the whole system again you could not be sure of the result. You also could not allocate responsibility for parts of the system to individuals and give them the authority and freedom to make their own choices within constraints because there were no clear

boundaries. Everybody was involved with everything and no one was in control. Nobody knew what all the interactions were.

This business of the interactions and their unknown effects was highlighted by the so-called "year 2000 bug". Of itself this was an absolutely trivial problem requiring only a few lines of code for its correction in any programme. The difficulty here was in finding just where to put the lines of code and to make sure that everything necessary had been changed without any extraneous changes. In a large system, with perhaps millions of lines of code, this becomes a non-trivial task. The media seized upon the problem and magnified it so that the general publicity could have caused problems regardless of what happened to the computer systems themselves. Clearly the interlinking of many things, each simple in themselves, can lead to an impenetrable jungle of complexity.

Even in our tiny New Zealand economy we have seen this type of problem highlighted in the real world when, in 1984, the New Zealand Treasury employed Australian consultants to tell them what the effects of various subsidies were on different parts of the economy. Clearly Treasury did not know. How then was it possible to manage the economy? How could the Politicians be expected to know? The problem was of the sort illustrated in figure 1.

In short, in the development of computer software, we learnt rapidly that in systems of any size and complexity the "free market" approach with a dedication to "efficiency" produced chaos.

By analogy I fear that the same result will obtain if ever we do get a free market on a world scale without the controls currently exercised by nations. "Efficiency" will override manageability and reliability. There will then be no one in control and we will get more and more instances of overshoot and collapse. Even now

we have seen this result in the share market, in the prices of various commodities, and in world economic activity. We are all concerned that it is happening with the resources of our environment.

At one stage in the computer software field attempts were made to overcome the problems by imposing absolutely detailed standards and interfaces on the programmers. These were continually invalidated by changes in the technology and by the resistance of the programmers. It was not possible for the people who were supposedly in control to know as much about the detail as the equally intelligent people at the workface. Either the latter had to be permitted to use their intelligence or they would not use it. The results of rigid control were disastrous. It can be taken that the analogy is with the central control of communism.

If the approach of trying to maximize efficiency without controls fails because of its vulnerability to mistakes and the approach of trying to control things so tightly that there are no mistakes also fails then what should we do?

AN ARCHITECTURE FOR SUCCESS

Again it is instructive to look at some of the more recent computer experience.

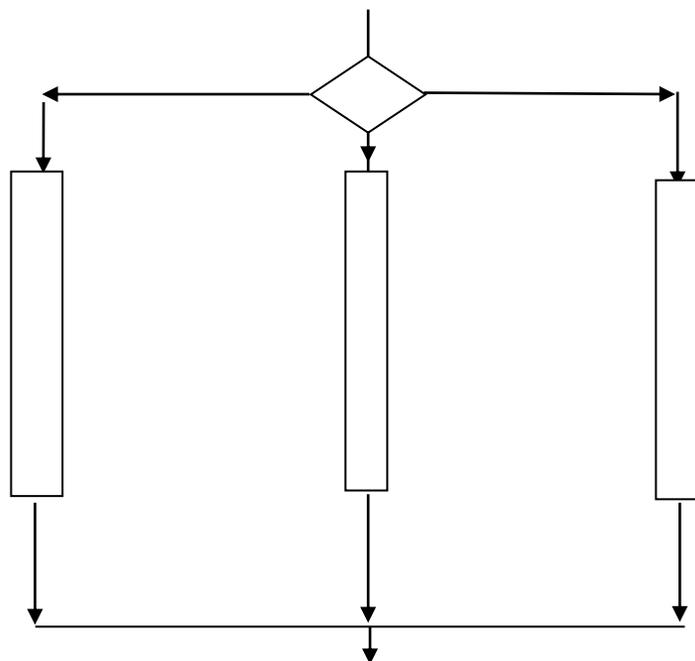
There have been many attacks on the problem with special languages, programming aids, structured design and the like. The latest logical outcome of all this goes by the entertaining name of OOPS, or Object Oriented Programming Systems.

The background to all of these methods of managing the development of computer systems is the requirement to obtain efficiency in the use of all resources, human, capital, management, time and computer resources so as to get systems that actually work and go on working. The notion of efficiency is

not restricted to any simple solitary parameter. (Contrast this with the current ideology in the "real world" where the sole measure of effectiveness is often taken to be money alone to the exclusion of social and other considerations.)

In the computer field we have learned to impose an "architecture" on our systems development where the whole is built of components which are as nearly as possible completely independent units. We get logic patterns which look like figure 2. Here each subroutine can be isolated, separately tested, shown to work as intended and has the minimum necessary interaction with the rest of the system. From the components we can then create a system which functions as a whole.

OOPS (the acronym for Object Oriented Programming System) goes to the logical extreme and provides for the development of completely independent "objects" with defined characteristics and they are then "cemented together" with a minimal amount of other code. In either case it becomes easy to replace or modify a part of the system without creating a threat to all the rest of the system. Each of the subroutines depicted below might be a separate object so far as the logical flow is concerned.



The main lesson of all of this experience is that to achieve workable complex systems it is essential to have independent components which have the minimum necessary interactions. The interactions have to be carefully standardised and controlled but within the units themselves responsible and competent individuals can have complete flexibility and freedom of action.

Contrast this experience with the "free market" approach where we would all be completely integrated into a "one-world" economy.

Part of the question, of course, has to be which should be the "independent" components of the system. It may be considered that multi-national corporations could be the independent components. However, from the nature of multi-nationals we would have to expect that they would optimise for themselves and their staff only. All those people who were not "owned" by the corporations would be left out of consideration. Only nations have a prospect of achieving "the greatest good for the greatest number".

I infer from the experience of the complex computer systems that our goal for nations should be what has been labelled "self reliance" as distinct from "self sufficiency" at one extreme or global integration at the other.

This was really put very well by J M Keynes when he wrote "I sympathise therefore with those who would minimize, rather than with those who would maximize, economic entanglement between nations. Ideas, knowledge, art, hospitality, travel - these are the things which should of their nature be international. But let goods be homespun whenever it is reasonably and conveniently possible; and, above all, let finance be primarily national."

THE NATION STATE

The role of the nation state can be likened to one of the subroutines in figure 2, namely to work properly within its boundaries, to exercise the controls it thinks proper within those boundaries (I am a fan for competition provided it is on a level playing field) and to interact with the rest of the world in agreed ways. The ideal in so many respects is to minimize rather than to maximize these interactions.

Each nation needs to accept that it will control itself or there is not much point in being a nation. If nations do not control themselves but rely on the "free market" to create a "global economy" then it is clear from the computer experience that everything will become linked to everything else and no one will be able to understand what is happening let alone to exercise the control and feedback mechanisms required to prevent continual overshoot and collapse in all sorts of areas.

This seems to me to be a fundamental requirement to avoid global economic and environmental disaster. We need to have nations accept the responsibilities of nationhood and to control their own destiny rather than hope for some invisible hand from the global economy to solve the problems. Only in this way, nation by nation, can we expect to overcome the world's problems. There must be a "first monkey" before we can get to the "hundredth monkey". (It is said that in a study of monkeys on a Japanese island that they were given potatoes to eat. One monkey washed the dirt from its potato before eating it. Gradually other monkeys came to do the same thing. Eventually 100 monkeys were washing their potato. Then, suddenly, all monkeys were washing their potatoes. The hundredth monkey is therefore taken as defining the turning point in the change of a custom.) So, hopefully, if one nation can solve a global problem at a local level it will be followed by others. Whereas if we wait to get unanimity before doing anything we may wait forever.

We can learn a great deal about managing a complex system by studying other complex systems. We do not have to experiment with whole nations, or the whole of humanity, in order to learn whether an ideology or system of management is likely to be successful or not.

We have a long way to go in learning to manage individual nations before learning to manage all nations. Leaving the task to multinational organisations will lead to tremendous interlinking which the computer experience shows us is likely to be so complex that we will be continually afflicted with instability. For managability we need to have groupings which have the optimum number of links with other groupings – erring on the side of too few links rather than too many.

I conclude that we need to retain nation states – with changes certainly – but still recognizably nation states.

How then can we do this? What is necessary to contain the forces of change? How can we extract the best from these forces without surrendering to them?

I will explore different aspects of the problem in the following chapters. One of the major questions regarding interlinks between nations is the handling of financial transactions so it is convenient to start by considering some aspects of these.

In some respects money is the simplest of all commodities. Large numbers of people feel that they understand money. It is familiar and easy to describe. One coin is equivalent to another of the same denomination – compare the complexity of potatoes for example. One potatoe may be vastly different from another of the same size. One may be clean and perfect. The other may be dirty, rotten, full of eyes, old, new, green, tasteless, waxy and so on.

The use of money in trade is clearly simpler than barter. Such a medium of exchange is a cornerstone of trade. Let us consider then the question of money in the life and health of a nation.

CHAPTER 3 CONTROLLING MONEY

From the computer experience I have concluded that nations should be preserved and that they should optimise their interactions with other nations. Optimisation here means minimization as far as is reasonably practical.

My concern is to maintain a stable and manageable world where the interactions are normal commercial and social interactions rather than physical interference by warfare. Nations must obviously provide protection against aggressive interference by outside forces but they're much better placed to do this if they are in a healthy state in other respects. Indeed, self-sufficiency is a great strength in time of war.

The normal interactions which one nation has with others are then concerned with flows of money, goods, people and information.

All nations have tight controls over the flow of people – while tourism and travel may be encouraged the establishment of permanent residency and work permits is fraught with regulations and restrictions. There are huge delays, costs and taxes. There are also customs barriers, rules, taxes and regulations for the flow of goods.

The experience of attempting to control the flow of money has been very varied. In the great depression of the 1930s New Zealand did not have its own reserve bank and could not create money. When the overseas banks said that the government had run out of money then the government could not pay its servants and teachers etc. The reaction was to have our own currency as the sole legal tender and to tightly control all external money flows with import licensing of goods and a fixed exchange rate.

The complications and rigidities that arose from this regime ultimately led to an abandonment of the controls both in terms of the goods and the flow of money. The New Zealand Reserve Bank is now able to indirectly affect these flows by manipulation of the interest rate and other variables of the banking system. The exchange rate “floats”. But its value depends, in part, on the current interest rates set by the Reserve Bank.

The exchange rate also depends on a host of other factors - the state of the rest of the world, our economic outlook, the weather, elections etc.

Even quite small changes in the exchange rate can have a large effect resulting in the opening or closing of industries, unemployment, relocation and so on. Volatility in the rate leads to uncertainty, indecision and paralysis.

Money is meant to be a medium of exchange but those who control the medium can also be seen in many cases as like a cancer of the human bodies exchange system – as leukemia feeds on blood so the controllers of money flows feed on the process and on the exchange rate.

Currencies with a small base are subject to manipulation by organisations controlling large amounts of money but, even without manipulation, those with foreknowledge or foresight are capable of benefitting substantially from exchange rate variations. Nations with their own currency usually require it to be the only legal tender within their boundaries but huge amounts of international trade are carried out in the major currencies such as the US dollar or Swiss francs. The wisdom of the common man has also led to these major currencies being used for many transactions within countries even where these are strictly illegal. So US dollars are used in Russia, China, Indonesia and many other countries.

One has to wonder if it would not be best for small countries to abandon their own currency and simply use a major currency. The creation of the Euro lends support to this view. The European banks will lose substantial income from the loss of the exchange business. Real commercial efficiency will improve without this leukemia-like effect sucking the profit from every cross border transaction.

On the downside national governments will lose the ability to create their own money. With expanding trade and economies more money is required to service the exchanges, assuming that the velocity of circulation and all other factors remain unchanged. More money can be printed without causing inflation. If a national government is to give up its own currency then it must have some say in the operation of the reserve bank that controls the adopted currency or it not only loses sovereignty but loses a potential source of financial benefit from the ability to create money and becomes dependent on the decisions of others regarding inflation and much else.

If another country's currency were to be adopted there is, however, no reason why a nation should not control interest rates and other indirect variables which partly determine the financial flows into and out of its boundaries.

A half way house is a transition arrangement such as for the Euro whereby both local and major currencies have been allowed to be legal tender for a time.

With the recent experience of Malaysia, Thailand, Korea, Russia, Brazil and Argentina and others it is clear that the exchange rate is as much a symptom as a cause. If there is a loss of confidence in a nation then such money as can be withdrawn quickly is withdrawn. The collapse of the exchange rate, or the fear of such a collapse, is then a further reason for withdrawal. If the exchange rate falls a little and people project this forwards and

act accordingly to get their money out while it is still worth something then the exchange rate will fall further. In systems theory this is called “positive feedback”, where the response to a change is to reinforce the change. Positive feedback is the classical way to create instability in a system.

If only a major currency was in use (or, at the extreme, if there was only one currency in the world) the exchange rate collapse as a cause of withdrawal would disappear. The other causes would remain but might not be nearly so severe. Certainly one would expect reactions to occur more slowly and in a more measured way. The nation’s government would have to negotiate with the money suppliers from time to time but this would be a more visible and controlled process. At least the government would know what was happening instead of leaving things to the discretion of individual organizations which are likely to act like a mob of sheep and all rush unpredictably in an unforeseen direction.

From a system control viewpoint it is obvious that nations should have mechanisms to control these cross border flows in order to achieve stability and manageability. There is a need for what is known as “negative feedback” such that there is a mechanism to act to negative, i.e.counter, any change so as to reduce its impact

But the flow of money across a nation’s borders is not the only issue determining economic activity within it. Decisions taken outside a nation can have a dramatic effect within the nation.

EXTERNAL INFLUENCES

As an example, the Bank of New Zealand in 1989 visited its own problems on my business and many others. This trading bank was owned by the New Zealand government and was ultimately bailed out of its problems by the government but not before it had destroyed many businesses. The problems were largely of the

banks own making and the 1987 share market crash. But another factor was the reaction of the international banking community to the 1987 share market crash. This is important in understanding the forces that come into play quite independently of any government decision making power and which must be taken into account in the making of those decisions.

What happened was that the Bank of International Settlements, with the spectre of third world debt and the experience of the 1987 share market crash, in 1988 decreed that all participating banks must raise their capital backing from 4% of their "risk-adjusted assets" to 8% by the end of 1992.

Banks had then to either halve their loans or double their capital in that time. The effect was to tighten worldwide credit, to increase interest rates and to produce recessionary conditions around the globe. The issue received no coverage in the popular press and politicians continued to make prognostications in apparent ignorance of the facts.

An article in Euromoney for July 1988 claimed that the Americans agreed to the decision because they thought that it would cripple Japanese banks but that in fact the American banks were disadvantaged because they were inhibited in their merger activity while the Japanese Ministry of Finance assisted the Japanese banks with their adjustments.

There were many effects. Because the risk adjusted assets were the critical measure one way of modifying the impact of the decision was to focus on this measure. In effect a loan to a business was considered to be only 50% when "risk-adjusted". On the other hand a property loan was considered to be an asset at its full value. So if a bank had previously only lent to businesses it could avoid making any change in its actual capital base by withdrawing entirely from business loans and making only property loans in order to "double" its asset base.

In New Zealand the National Bank (owned by the English bank Lloyds) bought a large real estate company so that the house mortgages could be channelled to them. Another bank sought to merge with a large insurance company which held most of its assets in house mortgages. Banks which previously had no interest in the housing market suddenly were vying for the business. On the other hand commercial loans were at penal rates of interest and hard to come by or withdrawn without warning. Many businesses failed.

At one point the Bank of New Zealand apparently had an asset ratio of less than 1.5%. The full story has never been told. It would appear that there were so many high level fingers in the messy pie of the banks demise that there has never been an enquiry to learn the lessons, find any culprits, change the rules or find out who got the money. The authorities do not want to know.

The Bank of International Settlements, like most such bodies, is not under the control of any government. It is a creature of its members. Yet its decisions can have a dramatic impact on all nations.

In the example given above we see that controlling the money flows is not a panacea. Economic activity within a nation can be dramatically affected without any change in the financial flows across its borders and without the government of the nation necessarily even knowing anything about the cause.

THE THREAT OF TECHNOLOGY

Further problems are now visible. Private computer networks and arrangements have had some of the same potential (and actuality for all I know) but the Internet raises huge problems of cross border financial flows.

Up to this point there have been some inhibitions about providing credit card numbers for “e-commerce” transactions out of a fear that the number will be captured and used illegally. This fear has been to some extent irrational as the risk of the number being captured while being transmitted on the Net has probably been much less than that presented by having it available to shop assistants, waiters, clerks etc. Any of these who have access to credit card numbers in the course of their work can use them on the Net. The inhibition for them is that if they use the numbers to purchase goods then they have to give an address for delivery. Similarly other transactions could be traced to them so the incidence of this kind of theft has been very low. It should become impossible with the security systems that are now being put into operation on the Internet.

The advent of Internet banking exacerbates all the problems. To an extent some of these are already in place with the increasing use of credit cards.

But there is a remorseless pressure from the technology that is driving the development of a banking revolution.

New Zealand now has only one small bank that is owned within its borders. Many are represented here but owned and controlled from overseas. When the transactions with them occur electronically the problems of measurement and control of the financial flows become ever greater. Governments will become increasingly dependent on accurate reporting from the institutions and audit will become more difficult.

The “eavesdropping” to remotely monitor who is downloading pornographic material is well established but the use of security systems will make financial monitoring more difficult. Nonetheless snooping on who is accessing which Internet site should still be possible. This follows from the fact that while the message can be

encrypted the “to” and “from” addresses must be in standard form or the communication cannot be delivered.

This is not just a problem for New Zealand. The use of Swiss bank accounts is legendary. Much of Russia’s wealth is now in private accounts outside Russia. With the development of Internet banking such facilities will become available to “the common man”.

In *The Sovereign Individual* it is contended that in a few years time these effects will lead to a collapse of all government revenues and to nations becoming ungovernable.

However, given that technology has created a problem there will be a way to use technology to solve it. One possibility is to make it illegal to use unlicensed financial organisations – whether these are credit card companies, banks or insurance companies etc. Licensed organisations – wherever situated – would have to be subject to audit (electronically and by manual means) by auditors from the nation concerned and would report electronically on a daily basis to the Reserve Bank. Internationally one would expect to slowly develop rules for licensing and reporting. Banks and the like would have to have sufficient assets within the nations borders in order to obtain a license to operate there.

As noted above, it will remain technically feasible to monitor the Internet to determine who is communicating with unlicensed banking operators, even if the encrypted messages cannot be decoded.

Nations need to be able to measure the flow of money across their borders in order to regulate the economic activity within them. But the pressures of the new technology will require new rules and international codes of behaviour for the financial institutions. This will in turn lead to the consolidation of the approved institutions which are appropriately licensed and

audited. The big will get bigger and will become even more of a threat to the integrity and stability of nations.

One is left, in any case, with the problem of the rogue institutions and nations. For example how does one enforce the payment of a forfeited bank account if the bank is in another country which is not co-operative.

The problems in this whole area are huge and menacing but if a very small part of the monies devoted to classical “defence” were devoted to solving these problems then this enormous threat to the health of nations could be overcome.

To summarize, we can say that a healthy nation must be able to measure the flows of money across its borders and to have in place mechanisms to control this flow if necessary. This will not ensure the financial stability of the nation but without it all else may fail.

Always there is a need to balance the good of the individual with the common good. Organisations can act like a mob of sheep and all go in the same direction at once, without warning. It is necessary to “fence them in” in various ways.

Of great significance is the situation where genuine investments have been made in productive enterprises either as bricks and mortar or in working capital. If the suppliers of the funds then want to withdraw them from the country and are able to do so on short notice then economic collapse and chaos can follow. Forced sales on a collapsing market and bankruptcies feed on one another.

The law regarding recovery of monies by a lender is of prime importance in the flow of money in a crisis situation. This is a matter which is directly under the control of a nation's

government and can of itself be a restraining influence such that other forms of constraint on the flow of money may be much less direct or heavy handed.

Indeed law is a vital element of a nation's health not just as regards money but in many other respects. Let us move on to consider some of these things.

CHAPTER 4. THE RULE OF LAW

Loosely, by the rule of law we mean that there are fixed bureaucratic rules and procedures which apply to all people in a nation. Perfectly stable nations have existed, and do exist, with only despotic or other forms of control but many of the actions and decisions needed for the health of the nation are independent of the method of rule. However, here I will discuss issues in the framework of the “rule of law” as well as the effects and problems of the legal system and enforcement.

One might classify the actions of governments as being to do with border issues, internal governance and global or transborder issues. Again these things are not independent but we will here focus on the internal rules and laws established by a nation’s government. To continue the discussion of the previous chapter, let us consider commercial law.

COMMERCIAL LAWS CAN INCREASE A NATIONS VULNERABILITY

Commercial Law is basically about money and it has much to do with the flow of money into and out of a nation. The questions of the rules and regulations governing business in a country have a great deal to do with the efficiency of the nation, the self-sufficiency of the nation, the ability of an entrepreneur to develop in the environment and the interest that others may have in investing in the nation.

The speculative flows of finance are little affected by the local laws other than any laws specifically dealing with the flows of money. And there is no point in a speculator moving money into a nation which uses the same currency in which it is already held unless that money is invested in some way. Merely holding it in a non interest bearing account is then fruitless. As noted earlier if there were only one currency in the world this form of

speculation could not exist. Given that the overall flows of money can be measured and that laws are in place and properly administered to check speculative flows if necessary then we are concerned with investment flows and here the local laws become all important.

In a sense any money that is lent to an arms length account holder within a nation is an investment in the nation. The lender may obtain an interest return which is greater than in another nation and the borrower presumably does something with the money which justifies that interest. In this case the control issue is largely one of regulating the length of term for borrowings outside the nation and legislating for the recovery processes if there is a default.

The calamitous collapses from a run on the currency stem partly from the fact that much of the speculative money is "at call". Indeed where it is not at arms length but is, for example, a transfer between branches of a bank or other multinational then recall may be immediate. In the case of a bank which has on-lent the money at call (and all overdrafts in New Zealand are "at call") they may respond to an anticipated currency collapse by calling for repayment of their loans, failing which they will put the borrower into receivership. The borrower will almost certainly be ruined through no fault of their own.

It is interesting to compare a large country, such as the USA, which has a considerable measure of self reliance and much less dependence on external trade, with a small country like New Zealand.

In the USA a borrower can go to the court for protection against their creditors, including bankers, and will be granted it for a period under "Chapter 11" but in countries, such as New Zealand, where the banks have unbridled power the effects of a panic about the currency can be a disastrous self fulfilling prophecy.

This is but one example of the importance of considering the nature and purpose of local laws in the light of modern conditions and technology. They can be of extreme importance to the question of survival of the nation's economy, its industries and its people.

We should examine this issue of debt recovery in more depth, remembering that it is but one example of the ways in which a nation can leave itself open to control by outside forces.

In New Zealand banks are essentially a cartel. They all operate the same way. Every business that requires a non-trivial bank overdraft or a term loan is required to give a debenture to the bank. The debenture gives the bank the power to appoint a receiver to take over the management of the company and to repay the bank plus its costs and the costs of the receiver. For term loans the debenture specifies the conditions under which a receiver may be appointed. These are usually that an interest payment or loan repayment is not met on due date. But for overdrafts the conditions are different. Here the debenture carries the condition that the overdraft will be repaid on demand. The bank does not have to give any reason for its demand. In practice the notice can be as little as two hours.

There have been cases of perfectly good companies being put into receivership because their bank needed money. The company may have had a term loan and been meeting all of the conditions on it. The bank cannot move on the basis of the term loan but it can demand repayment of the overdraft and appoint a receiver. On appointment of a receiver the term loan will become repayable.

In New Zealand the only qualifications to be a receiver are that you not be personally bankrupt and not have been convicted of an offence with a sentence of twelve months or more in the

previous five years. You don't have to know anything about the business for which you are a receiver.

Reviewing the case law where people have tried to obtain redress for the horrific actions and inadequacies of some receivers is distressing. Almost without exception the judge comes back to the debenture, which gives absolute power to the receiver, and finds in favour of the receiver.

In practice receivers are usually appointed from the big accounting firms. There are many stories of incompetence and arrogance. All that some receivers are interested in is obtaining their fees, which is the first charge on the business, and hastily recovering some of the bank's money. There is no quality control and no redress. Absolute power corrupts absolutely. In any case they are normally indemnified by the bank appointing them. Receivers are simply not accountable for their actions.

There is a technique beloved of receivers which has become so common that it has a special name. It is referred to as "hiving down" a company. This simply means that the creditors are unashamedly defrauded. The assets and business of the company are sold to another party but they do not take over the debts of the company. Those who have supplied goods and services to the company which has gone into receivership typically cannot reclaim their products and receive no payment at all. They only get some payment if there is money left over after the receiver has been paid, then the debenture holder, inland revenue and other privileged parties. Since the receiver has no duty to unsecured creditors they have to be very fortunate to get anything. Frequently this failure to receive payment at all, or to have it long delayed, results in creditors being placed in receivership. A multiplier effect is created.

Why is it that when a business fails one of its suppliers (the bank which has supplied money instead of goods) is entitled to have

first bite at the cherry and only when they are fully satisfied do the other suppliers get any return for their services? This is especially puzzling in New Zealand where we have an excellent alternative model of how to deal with a business in difficulty.

This alternative model is the appointment by government of a Statutory Manager who has a duty to all parties. In the last ten years I have only learned of two cases where a receiver has traded a company out of its problems. There have been some thirty thousand receiverships in this time. On the other hand I have become aware of some three Statutory Managements which have preserved the business and/or seen all creditors paid in full and another which is well down that track. This out of five such appointments. Again in the USA it is said that of all the companies which go into chapter 11 roughly half survive.

The laws regarding receivership in New Zealand are grossly inequitable. By obtaining a debenture from a company a bank obtains preference in recovering its money at the expense of other creditors. These creditors are not parties to the debenture and may not even be aware of its existence. The commercial health of the country is threatened by this inequity.

The only possible explanation for the state of affairs in New Zealand where banks have special preference is that the banks have come to have inordinate power which has then been sanctified by law to the extent that it has come to be accepted as the natural order of things. Banks can, at their sole discretion, inflict losses not only on their customers but on others who have had no connection with the bank.

Bankers are as susceptible as anyone else to fashions. Banks also are bureaucracies. As such they work on a very simple business model which can be applied to any business be it the corner store or a vast and complex enterprise. They primarily look backwards at the accounts rather than forward to the future. Any

bank officer who wishes to proceed up the bank hierarchy uses judgment at their peril. Particularly in hard times the fashion is to be “hard nosed” – meaning to apply the rules regardless of consequences.

Most companies look to the future rather than the past so far as their trading is concerned. But the risk of loss from receivership for any company that gives credit is going to be an increasing inhibition to the development of electronic commerce. This is another hidden threat to the health of the nation.

DISASTERS WAITING TO HAPPEN

All of this sets the scene for a self fulfilling economic Armageddon prophecy. Suppose an idea becomes current that a nations currency or economic prospects are bad. Then the banks will work according to the old adage that “a banker is someone who will hire you his umbrella when the sun is shining and want it back on a rainy day”. They will recall overdrafts and appoint receivers who will sell off property with indecent haste at fire sale prices. This will reduce the value of other property and businesses so that, according to the simple business models of the banks, the equity of the owners of other businesses is reduced so that they too must be put into receivership. The dominoes fall. The value of property and business falls, more are put into receivership. The money is taken out of the country. As a result the exchange rate falls increasing the urgency with which the banks act. A multiplier effect becomes unstoppable.

Under the USA’s Chapter 11 the management of companies remains in place and the company’s debts are frozen so that the company can continue to operate the business and trade their way out of the problem. The banks cannot simply take over and remove their money at will. The menace to the country as a whole does not exist. In any case with many of the banks in the USA being based in that country once they had recovered their

money from one customer they would need to lend it to another customer. So unless they decided to send it offshore there would be limited overall effect on the country as a whole.

Where banks and other institutions are owned outside the nation any such nation with internal laws which allow the exercise of the massive power outlined above is extremely vulnerable to any hiccup in the financial community around the world. Suppose, for example, that the Bank of International Settlements were again to raise its requirements for participating banks asset backing. If for any reason one bank were to decide that it wanted to solve its problem by repatriating its local investment in a hurry then, if they operated in their normal way, the other banks would also promptly join in the recall of their loans. Collapse would follow.

Banks can, and do, fail. When banks themselves are in desperate straits they will act in any way that they can, and sacrifice anyone else, in order to preserve themselves. They may well visit the problems of their country of origin upon another country.

It should be clear that, as well as the moral need for equitable treatment of all parties involved in business, nations have an imperative to ensure that their legal framework does not give outside forces (or inside forces for that matter) the power to decimate their economy either by accident or design.

The laws of a nation are an essential component of its health and survival. If they do not work properly then anarchy may follow. The results may be unpredictable.

There are other problems of increasing complexity in the legal field which threaten the stability of healthy commerce. The problems go far beyond the issues of commerce but I will discuss them largely in this connection. The problems are not confined to New Zealand.

CASE LAW WILL ULTIMATELY SELF DESTRUCT

There is a very real danger of anarchy in the field of commerce. The growth of the cult of the individual and the ideology of the free market and individual enterprise has eroded the, always slightly suspect, ethics of business in general to a dangerous degree. Without widespread moral inhibitions there is a greater need for legal sanctions.

During the “New Zealand experiment” of the late twentieth century a surtax was imposed on pensioners so that many paid a higher level of tax than if they had been younger. This surtax was bitterly resented by many. What was almost a new industry arose with lawyers, accountants and assorted fringe operators specializing in schemes for avoidance. Thousands of ordinary older people who had never contemplated avoiding tax in their lives before then entered into arrangements to minimize their tax. The odium attaching to failing to pay your tax and being caught evaporated. People openly talked of their scheme and recommended it to others. A “sea change” took place in the attitude towards taxes and the law in general. A big step was taken towards anarchy.

The complexity of our society is also increasing. There are more laws as a result. The number of cases coming before the Courts increases because there are more disputes, more about which to dispute and more ways to formulate the dispute.

In all the countries where the basis of their law came from Britain there is a mixture of Statute law made by Parliament and Case Law made by Judges. Case Law is simply the decisions made by Judges from the beginning of time.

There is a laudable attempt by the judges to be consistent. It is acceptable for a higher court judge to say that a lower court judge

was wrong but not vice versa. So the decisions of the higher courts are binding on the lower courts.

Where there is no applicable law the judges necessarily look to earlier decisions. They also do this in order to interpret and administer the statute law. Occasionally Parliament will bring down a law which is a “code” - meaning that it is a new beginning and prior decisions of judges are no longer applicable except in so far as they are embodied in the code. But the code may not totally cover the case before a judge. Again the judge must look back to earlier cases for guidance on making a judgment.

A judgment should give a reason for the judgment. This is known as the “ratio decidendi” – the reason for the decision. It is this which another lower court judge must follow. But judgments often postulate that if the case had been different then a different decision might have resulted. This is said to be “obiter dicta” and while not binding on a lower court judge is persuasive.

It is often not easy to find in the massive and tortuous reasoning exactly what the reason for a decision was in a particular case. Let me quote Lord Denning in the House of Lords judgment in *Paal Wilson & Co v Partenreederei(C.A.)* [1983} 873:

*But that raises at once the question: what do you mean by the “decision” of the higher courts? Presumably the reason for the decision. The ratio decidendi as the classicists call it. The reason which is necessary for the decision. It is binding on the lower courts. It is to be distinguished from the obiter dicta. They are not binding on the lower courts, The task of distinguishing between them is formidable. Especially when there are four or five speeches and they each gave different reasons, as in *Boys v Chaplin* [1971] A.C. 356. Then “the ratio decidendi of the case must be somewhat speculative” see *Dicey & Morris, The Conflict of Law*, 10th ed. (1980), vol. 2, p. 942; and the lower court can choose what it likes.*

It is not now the judges responsibility to discover the appropriate cases, or even the statute law. They abandoned this long ago. It is the responsibility of the lawyers to quote cases and statutes and to try to show how they should lead to a decision for their client. They can quote cases from all around the world. Students have to learn about cases, teachers have to teach them, lawyers have to find and then to argue them. Judges have to listen to them.

There are more and more cases world wide. There are huge libraries of them Computer systems make it easier to find cases so more are used. The costs go up and up.

The British legal system of case law has become such a monster that recourse to the law is beyond the financial resources of most small and medium sized businesses as well as of individuals. The rule of law is supposed to protect the weak from the strong but it now has even less claim to this function that it ever did.

We must find a better way and I will offer some suggestions later. But first let me go into a little more detail with some specifics.

AN AUSTRALIAN COMMENTARY

An Australian journalist, Evan Whitton, has written a well researched and readable book “The Cartel” – subtitled Lawyers and Their Nine Magic Tricks – (available from www.eWhitton.com) dealing not only with the problems of the Westminster type of legal system but with some of the solutions. Whitton points to the failures of the Westminster system (used in nations with 1600 million people in total) and the superiority of the European system. The latter seeks truth. The Westminster system seeks to reach a solution. The two are not the same.

The Westminster system is said to result in 80% of criminals getting off whereas in Germany and France 90% of serious criminals are incarcerated. Certainly in New Zealand there is a widening perception that the law is costly, inefficient, untimely, heavily biased in favour of the powerful and widely ignored. Whitton points to many cases, including the O J Simpson trial in the USA to highlight the deficiencies of our criminal law in particular.

Whitton quotes Stuart Littlemore QC as saying in 1995 "... you really feel you've done something when you get the guilty off." Clearly the advocates in an adversarial situation are interested in winning. Neither are interested in truth, fairness or justice.

QUESTIONABLE ISSUES

Closer to home there have been many recent cases in New Zealand of lawyers themselves misappropriating clients funds. Two judges were charged with making false expense claims. The junior one confessed and resigned . He was fined and struck off as a lawyer. The senior judge however pleaded not guilty and was acquitted largely on the ground that he did not have a guilty mind. He remains as a judge and apparently was only narrowly persuaded not to claim for damages and the costs of his trial.

A brave and persistent reporter – Ian Wishart - did a magnificent investigative job which resulted in a television program and a book (The Paradise Conspiracy published by Howling at the Moon Publications). This led to the setting up of a Commission of Enquiry into what became known as the "Wine Box " affair because it originated from a wine box full of documents. The enquiry was somewhat hobbled but in a lengthy sitting extending over almost two years the evidence convinced most citizens that there had been real skullduggery by the major companies, banks, lawyers and accountants concerned. It appeared that tax of some hundreds of millions of dollars had been evaded. Under threat of

personal legal attack by these powerful forces the Commissioner then reported. His astonishing conclusion was that since the “form” was, on the surface, one of correct procedures being followed the “substance” of the actions was perfectly acceptable.

The Court of Appeal later found that the “Wine Box” Commissioner was wrong in law. Yet still the authorities have refused to re-visit the issue leaving the wrong-doers victorious. The Director of the Serious Fraud office has declined to prosecute claiming that the prospects of success did not justify it. The cynics speculate that since the SFO is required to achieve 85% success in its prosecutions (otherwise, presumably, performance bonuses for the staff are reduced) and has a limited budget it cannot afford to put costly cases before a judge.

The costs of the legal processes are such that even government departments must consider whether to engage in them. Again, the Inland Revenue Department has stated publicly that it would not take further legal action over the Wine-Box because it did not think that it would recover any tax. The fact that the tax laws had been flouted did not appear to matter.

Another notable book is by Anthony Molloy, QC. In “Thirty Pieces of Silver” (again published by “Howling at the Moon Publications” in 1998). He details the actions of Russell McVeagh McKenzie Bartleet & Co the “foremost law firm in New Zealand”. He is careful to say that no one should be considered guilty until convicted in a court of law. But what he sets out leaves the reader with little doubt that the actions of this firm have defrauded investors and the Inland Revenue Department of many millions of dollars. Incredibly the authorities appear to have ignored the laying out of the facts. The firm themselves have, publicly, practically ignored the book and have not been game to make a court challenge regarding it.

I have the personal experience of making a sale of software, being told endless lies and suing for the money. It took about 18 months to get into court. The case was not defended as the defendant's principal had just been incarcerated for 18 months for fraud. We obtained a judgment which included less than one third of the actual legal costs. These exceeded the amount involved. We then found that the company had been delisted and no recovery action was possible.

Another personal experience involved a blatant breach of contract by Radio New Zealand. It took ten years and over \$100,000 in legal fees to reach finality. The case never actually got to Court but was settled out of court with a payment of \$432,000. This went to the receiver of my company. Radio New Zealand had correctly thought that if they used their disproportionate power they could delay until the company no longer existed. Had the money been paid earlier there would have been no receiver. The manager whose general incompetence caused this cost to his organisation was of course continuously promoted because it appeared that he had saved the organization a substantial sum by refusing payment to the contractor. After the delay and several reorganizations of Radio New Zealand it is doubtful if any responsibility was ever attached to him.

Delay, cost, lack of enforcement, miscarriages of what the normal person sees as justice and simple futility of the processes seem to be endemic in the Westminster system.

WHAT IS THE LAW?

Every time a case is decided in the District Court, overturned in the High Court, overturned again in the Appeal Court and once more by the Privy Council (perhaps by a three to two judgment) one has to wonder "what is the law?" If all of the highly paid

deliberators on the case cannot agree how can any ordinary mortal be expected to know?

The German, and general European, system where all law is codified looks very attractive. Anyone can read the published law and can have a reasonable idea of what it means. Judges make their decisions on the basis of the published law. It is accepted that mistakes will be made and will be appealed to higher courts. Clearly these courts may also make mistakes but they are not then sanctified and required to be followed by all lower courts.

Under the Westminster system I have noted earlier the heavy dependence on case law. As Whitton says, “..cross examination might show that thirteenth century and later judges were wrong, confused, or had a secret agendaThey are not available for cross examination but their decisions stand.”

If a decision has been made in a higher court on an identical case then a lower court must decide in the same way. Reading the judgments of cases one is quickly struck with admiration for the ingenuity, amounting to genius in some cases, that judges and lawyers apply to the task of “distinguishing” cases so as to make out that their desired outcome is consistent with what has gone before.

With the increasing number of cases, more in every year and going back to the beginning of time, the task of maintaining apparent consistency becomes ever greater. It is not surprising that the law becomes always more arcane and problematic. Nor is it surprising that, according to Whitton, there is one lawyer to every 350 people in the USA and if a US company has 50 lawyers its European equivalent is likely to have one.

There is a ray of hope. In Britain, home of the Westminster system of law, things have fortunately begun to change. From 26 April, 1999 many of Lord Woolf’s proposals to reform the Civil

Justice system have come into force. They represent a giant step towards the European system. The overriding objective is to enable the courts to deal with cases fairly and quickly. The judges will partially reclaim the process from the lawyers. It is expected that these new procedures will prevent rich litigants overpowering poorer ones, that they will cut the costs of the process and make the costs commensurate with the stakes involved.

A loss of confidence in the rule of law is disastrous for any nation's well being. One has only to look at present day Russia to see the problems. Taxes are not collected, the banks do not work, crime is rife, workers are not paid, bribery is the norm and everyone tries to get their money into foreign currency while foreign banks and investors stay away in droves. A spirit of hopelessness spreads like a plague.

The seeds of this decay are apparent in much of the Western world. The problems have always been there under the surface but as they become more visible they appear to become more acceptable. It has been well said that there is nothing more powerful than an idea whose time has come. Often the idea is encapsulated in a slogan. Currently it is "Free Market". An extension of this is "anything goes" – and without moral or legal and enforceable restraints anything does.

Without a commitment to the rule of law and the consequent acceptance of legal processes as a means of resolving disputes it is an easy step to violent protest and acts of terrorism. Indeed terrorism at the international level appears an inevitable part of our future unless we have nations which themselves accept and practice the rule of law.

SOME PRACTICAL CHANGES

We have to face the fact that our legal system has been developed over many centuries. Great minds have built on the work of other great minds and there is much to be proud of. Any

change will be resisted both because of the vested interest of the current practitioners and because they are rightly proud of the complications of the great system which they have mastered. Many of the practitioners will agree that there is much wrong with the system but then claim that it is the best it can be and any change will be for the worse.

So let us start first with something that seems to me to be quite simple. These are the rules of the courts. If one looks at an annotated version of the District Court Rules or the High Court Rules one finds that a rule is given and then there may be several pages summarizing the cases in which judges have applied the rule – often quite differently. I believe that these rules should be “codified”. They could well contain examples drawn from cases but rejecting some of the past decisions. That is, there should be supplementary direction on how the rule is to be applied if necessary. In New Zealand we have a respected Law Commission which reviews laws and proposes changes. It is well placed to carry out this codification and to take an ongoing role in extending or modifying the rules when it agrees with a request from a judge. Everyone would then know what the rules are. At present, in many cases, it is far from clear.

The same issue applies with respect to many existing laws. Codification and the provision of hypothetical cases for use as precedents is essential to cut the cost of legal action.

Consider the situation with a new law. At present it is passed by Parliament. But there is no experience in applying it – there are no cases. No publically available authoritative guidance is provided on how the law is to be interpreted. So the legal fraternity goes into high gear, producing papers and running seminars about how this new wonder will actually work. It is all speculative until a case comes before a judge. Some unfortunate suckers will eventually be persuaded, or forced, to commit to perhaps hundreds of thousands of dollars to “test the law”. The

judge then may well feel that this is too important for them to make a decision on their own as it is a case which will set a precedent and therefore ought to be widely argued. It really is so important that it should go all the way to the Privy Council in order to get a definitive ruling. So the judge may make a decision which begs for this long path to be followed. Or the parties may choose to do so because it is not clear that the judge made the right decision.

What is the law? At best it is an ass in these circumstances. A more complicated, inefficient and unjust process could hardly be devised. One of the parties to the dispute will “win” and one will “lose”. In fact both will pay huge sums for a “law fest” which, by their case, will have made some case law so that others may then know what the law is – unless, that is, they can “distinguish” their case from the precedent setting case.

Again it would seem reasonable for, say, the Law Commission to provide the necessary supplementary, and authoritative, rules for interpretation of the new law. They could make appropriate decisions on the hypothetical cases which the readers of the new law put to them. Surely this would not be too hard! We might then have some justification for saying that “ignorance of the law is no excuse”.

The application of the law would not then depend on the sequential decisions of judges but on the Law Commission. It is a political axiom that “hard cases make bad law”. Precedents ought not to be set by cases which happen to get a sympathetic judge. They should be considered, rounded decisions of several people competent in the area.

If the way in which the law is to be implemented is not to the liking of the politicians then they would have an opportunity to change it before some unfortunate is damaged in a way that was not intended by the legislature.

If we are to continue with the present system whereby the law is to be made certain only by the use of cases then, in all fairness, not only should the legal bills be paid but a fair return should be given to the parties involved for the time and stress that they sacrifice by acting as “guinea pigs”.

There is a great deal more to say about the problems of our adversarial system and the comparative merits of the European “inquisitorial” system. It is well covered by Whitton, as mentioned earlier. I will content myself here with repeating two observations. Firstly, that under the adversarial system neither the plaintiff nor the defendant are interested in the truth. – they are only interested in winning. Secondly that, in criminal cases, the idea that the defendant can choose whether to give evidence or not is an absurdity – especially when the witnesses can be subjected to character assassination in cross examination in order to discredit them in the eyes of the jury.

It will take a great deal of time to change from the adversarial system because it is so entrenched but I believe that the change is coming and that the nations which first move towards the European systems and away from the Westminster legal model will enjoy the advantages of greater efficiency and greater business investment because of it. This is the case as far as both the codification of laws and the overhaul or abandonment of the adversarial systems are concerned.

There is a move towards the use of arbitration in commercial disputes which, in a modest fashion points the way. This is particularly clear in the field of international disputes.

THE INTERNATIONAL DIMENSION

If the commerce is between nations the legal difficulties of a dispute are significantly greater than within a nation. Some twenty years ago I had occasion to consider acting on a clause in an international contract which provided that any dispute between

the parties should be resolved by submission to the International Court of Arbitration in the Hague. It emerged that three arbitrators would have to be appointed and the fee for each would be US\$32,000. We would initially have to pay our own costs and half of the arbitrators fees as well as half the costs of the premises and support staff for the arbitration. We might, if we lost, have to pay all the costs including the other parties costs. If we won we would then have to try to enforce the judgment in the other countries involved. Fortunately, the other parties to the dispute were not enamoured of the prospect either. Nor were any of us enthused about the prospect of using the normal court processes so we agreed to arbitrate the problem in New Zealand. In the event we won and, having kept the money in New Zealand, were able to collect. The process was quick, efficient and private. Arbitration is only available for commercial disputes but has many advantages over court processes.

Essentially by agreeing to arbitrate the parties are committed to either agree on the arbitrator or on the method of choosing the arbitrator. The parties can also choose many of the processes that are to be followed. If they cannot agree on these processes then there are default provisions in the Arbitration Act which will apply. The parties are then pretty much committed to the decision of the arbitrator. There are very limited grounds for interference or review by the courts which take the view that there was an agreement between the parties and the courts should not interfere unless there was something seriously wrong with the process.

The parties can agree to have the arbitration conducted by an Inquisitorial process. Precisely what this means in a legal culture wedded to the adversarial system is not well defined and should be specified by the parties. But they could agree to have the arbitration conducted fully on European lines where, for example, the arbitrator would cross examine the witnesses instead of the opposing party doing so. Certainly the parties can choose for

themselves whether they will be represented by legal counsel or will use an advocate who is not a lawyer. They can represent themselves – again without requiring the agreement of the other party.

Best of all, perhaps, the major nations of the world have, like New Zealand, modeled their arbitration laws on the United Nations Model Law on International Arbitration. This was clearly a compromise between at least the European and United States interests. It has brought about a high level of international consistency. It provides that the participating nations will enforce arbitral decisions as if they were decisions of their own courts.

At one stroke an agreement to arbitrate can remove all the problems of jurisdiction which can otherwise cost years in arguing about which countries court has jurisdiction and then which countries laws should apply.

In the age of globalisation and e-commerce anyone involved in contractual matters who does not get properly drawn provisions for arbitration included in their contracts is likely to regret the omission.

An arbitrator is bound by the law but does not have to be a lawyer. The parties may choose an engineer or some other person to resolve the dispute. This makes it even more essential that the law is available, understandable and certain because the arbitrators decision must be within the framework of the law.

ENFORCEMENT

The naïve might think that having got a judgment from a court that it will be carried out. In civil cases this is naïve thinking indeed.

If the person does not pay the judgment (assuming it is a matter of money) then there are two avenues to pursue.

One is to apply to the court to have the person examined as to their assets by the registrar of the court. This seems particularly fruitless when the person involved has lied profusely and consistently in order to avoid paying a debt. It may be that the registrar will then agree to the payment of \$10 a week for fifteen years with no provision for interest.

The second avenue is to have the bailiffs seize and sell assets from the offending party. This seems like a better approach. But the onus is on the beneficiary of the judgment to identify the assets. If the beneficiary gives wrong information to the bailiffs the beneficiary may be liable for the wrongful seizure. What is more the assets have to be capable of being seized. If the only assets are in property then one has to go to the court again (at further cost) to get a charging order against the property. Only if the property is sold do you then get your money. After two years the charging order lapses and you have to again go to the court to get it renewed.

In New Zealand most small, and many large, organizations consider the courts and the law to be useless in commerce. They have good grounds for this view. The processes are too slow, too costly and too ineffective. They only work against the good people. The bad ones know how to escape.

The question is why is an order of the court not enforced by the court? Should court orders be enforced by the police?

At the least it would seem proper for the police to carry out any tracing of individuals who choose to disappear rather than pay their debts. And if people cannot pay their debts to be automatically bankrupted and placed under the supervision of the Official Assignee.

LAW AND GOVERNMENT FINANCE

It should be clear that the enactment of good law and its enforcement is a prime responsibility of any nation's government and a critical determinate of the nation's health. Laws and their enforcement are but one of the things which a government must finance. Let us consider this issue of government finance next.

We need to keep in mind that the way in which government's financial needs are met may have almost as much influence in determining the health of the nation as the laws themselves. Any method of collecting tax which is widely regarded as inequitable leads to widespread avoidance and a tolerance of evasion. This in turn leads to a breakdown of respect for law in general.

CHAPTER 5. FINANCING GOVERNMENT

All of the calls on a nation's government require funding. From ancient times the tax gatherer has been unpopular and people have sought to avoid paying their taxes. Tax avoidance has become a highly developed art form. Even one of the English law lords is quoted as saying " No man has a duty, moral, legal or otherwise, to so order his affairs as to assist the tax gatherer to get his shovel into the man's money."

Many of our taxes have been imposed simply to gather money. The effects have not always been considered. If possible one would like a tax to lead to some desirable side effects apart from bringing in revenue. A tax on tobacco has the effect of decreasing its use with what are now known to be beneficial effects on the physical health of the populace. A tax on alcohol has a similar effect. These taxes are easy to collect from the relatively few suppliers and they are hard for the users to avoid. This is all highly commendable.

WHY TAX COMPANY PROFITS?

There are many anomalies. For example throughout the western world companies are taxed on profits but individuals are taxed on income! Why is it so? This can be seen as an example of what David Korten, in *When Corporations Rule the World*, refers to when tracing the way in which corporations have been able to influence the law makers. From the time of the first companies, established under Royal Charter, companies have been able to progressively lobby their governments so as to increase their rights and diminish their responsibilities. Companies are legal persons but are treated differently from natural persons in many respects.

If individuals were treated in the same way as companies then they would be able to deduct, as a cost of earning their income all of the “support” services such as baby sitters, partner at home, food, travel etc. This could have a very beneficial effect on employment and social factors in the society. At present not only is income and wealth grossly unevenly distributed but so is leisure.

We tend to have the well paid and frantic employed “rich” at the same time as having the desperately bored unemployed and leisured “poor”. There needs to be a somewhat different social outlook to give support personnel the dignity they deserve. Too much of the old “servant” stigma attaches to these services. And the fact that they are “underground” does nothing to assist in this respect. In many cases the support personnel – cleaning ladies and the like – do not declare their income. Neither do their employers deduct the taxes that the law requires. The support persons are thereby deprived of the basic protections accorded by the law to employed persons – such as accident compensation – but at the same time conceal from the welfare departments their real situation so as not to lose the benefits on which they rely. If payments to support personnel were tax deductible one would expect many of the abuses to disappear and for many more jobs to be created. The New Zealand do-it yourself pattern would be modified so that highly skilled people could concentrate on the work for which they are trained rather than using their “leisure” time to do the household tasks for which they may be comparatively unskilled. I would expect everyone to benefit.

The pattern of taxing company profits rather than income makes tax avoidance much easier, particularly for multi national companies. Indeed one of the major reasons for the development of the major multinational firms of accountants is that they have specialised tax knowledge of many nations. They develop computer models to allow the taking of profit in the most

advantageous way for their multinational clients. Often this involves moving the accounting base and adjusting transfer costs etc in half a dozen or more countries. The result can be a saving of many millions of dollars. It is all generally perfectly legal although if the tax authorities in any country was able to see the whole picture they might not agree.

The alternative is simply to tax the total income of companies. Indeed I have experience of one country which offered the alternative of a 45% tax on profit or a 15% tax on the income derived in that country. Naturally we chose the 45% alternative.

A tax on total company income would be much easier to police than at present and would save a great deal in compliance costs. It would also reduce the complications that small businesses have in trying to optimise the split between returns (salaries, allowances and "perks") for the proprietors and the business profits. The saving in compliance costs will be able to be gauged by the objections from lawyers and accountants anywhere that company tax on income instead of profit is suggested. Perhaps even more significantly the whole high priced business of constructing tax avoidance schemes and using tax havens would be jeopardised, if not eliminated entirely.

There are of course many variations of this basic idea possible. There is no reason for the company tax to be at a flat rate – it could be graduated; there could be basic exemptions and so on. In the latter case all companies with the same beneficial ownership would have to be added together for tax purposes. But to avoid complications my own choice would be to apply the same tax regime to companies as to individuals. Why not?

One reason of course is that in the world wide competition to attract industry it is, correctly for the most part, thought that companies considerations on siting their bases is influenced, in part, by the tax rate that applies in different locations.

If the tax is fixed according to the income derived within the nation, regardless of what the company does in other nations, then the amount of tax to be paid depends on the company's success in the marketplace and not on its cost structure. One would expect companies to try to minimize their local costs so as to take as much of their total multinational profit as possible in the country which is taxing on income. They will have to pay the tax on income anyway but if they can transfer costs to another country then they can reduce their profits and tax in that country. This may mean that they will wish to move as much as possible of their management and manufacturing into other countries where they can claim them as costs so as to reduce their apparent profit and therefore tax in those countries. This would reduce employment in the country taxing on the basis of income rather than profit. So it would be hazardous for just one nation to change the pattern of taxation.

However logical something may be it is always difficult to do anything which is not the general practice. If all nations followed the logic of taxing companies and individuals on the same basis there would be no problem. How could a single nation avoid the problem if others do not move at the same time?

Governments want to have companies located within their borders because they want the employment not just for the tax from the employees and the saving of unemployment benefits that follow but for all of the social effects as well. But companies do not give up markets easily if they are able to make a profit from them. Here is the route to the solution.

If a company moves employment and then supplies its market in the nation from outside the nation's borders then the nation's government loses income and incurs costs if there is unemployment. Here then is one logical reason for a tariff barrier. If the government extracted from the imported products the tax

and saving in unemployment benefits that it would get if the products were made internally then it would have a fiscally neutral situation even if some companies moved to another country because of the different tax structure. They could even pitch the tariff at a level to allow them to compensate for the social problems. But regardless of the tax structure there is merit in a tariff barrier.

TAX AT THE BORDER

The fact that governments gain taxes and save benefits from employment within the nation is very real. Why should they not gather tax on goods entering at the border?

Where there is a Goods and Services Tax (GST) or a Value Added Tax (VAT) then this is uniformly collected on goods sold regardless of whether they are made within the country or outside it. Why are the equivalents of the other taxes (particularly income taxes for employees and company profits) which would be included in the price of the goods if they are made internally not collected uniformly also?

Obviously this thinking is leading towards imposing a tariff barrier at the borders of nations. Tariffs have been abhorred by the proponents of the “free market” and indeed much distortion has been caused by their imposition. By imposing a tariff or other charges on one kind of product and not on another governments have distorted the development of industries. In New Zealand for example there was a forty year period of import control, customs duties etc which were aimed at protecting infant industries. Unfortunately what was being protected was often only an infant industry in New Zealand and fully mature elsewhere. Also industries never seemed to “grow up”. Once protected they lobbied, usually successfully, to stay protected.

The arguments that I have heard against tariffs have not impressed me as having validity if there is a general and uniform

tariff on all goods and services imported into a country. This is a key ingredient. If there is the same tariff on all imported goods and services then as one industry grows another may have to shrink as they compete for the use of the resources within the country. There is a “level playing field” between industries.

What level should tariffs be set at? Well, at a time of full employment there is no loss of revenue to the government of a nation from importing extra goods or services because there is not the resource available internally to provide them. But most nations of the world now have to face the reality of unemployment for the foreseeable future. We will talk more of this later but for the present let us note that if the nation has a requirement to obtain say 40% of the GDP in order to finance its activities then it has to collect this percentage from the activities within its borders. On the face of it therefore the government should also collect 40% on the goods etc which are imported.

If there is already a Goods and Services Tax of 12.5% then this should be deducted from the tariff since it is being collected later. So 27.5% of the value of the goods arriving at the border should be collected as a tariff. The other taxes on activities within the country will, of course, still be realised so we need only levy the tariff on the value of the goods at the border.

However, as noted earlier there is a case for saying that if there is full employment within the nation then there should be no impost on the imported products etc. So the tariff can well be graduated according to the level of unemployment as measured in some way. In the case of New Zealand the tariff should be something like four times the current unemployment level whatever that may be.

One can envisage all sorts of complications that might be added to this idea but it should be kept simple so as to make it visible, easy to administer and understand. It has the desirable

characteristic of negative feedback which is necessary to give stability to any system. As unemployment rises there is a greater incentive to provide goods etc from the nations own resources thus counteracting the rise of unemployment. The local industry is exposed to international competition in a controlled way and as other industries arise all of them must compete in the same social and taxation environment. Only then does one have what may reasonably be termed a level playing field for industry. Where an industry in one nation has to compete with an industry in a different nation there can be gross inequity if the environmental, safety, wage and other conditions in the two countries differ.

SUBSIDISING EXPORTS

I have always considered it strange that governments become slaves of slogans such as “export led growth” and in many cases forego some of their income in order to compete unfairly for markets in other countries. The application of the policies is usually also very strange. In New Zealand for example there is a 12.5% GST on goods sold within the country but none on exported goods. Since both use the facilities and resources of the country, including the facilities provided by the government, why does government not collect its dues from both? If the argument is that government has some moral reason for not taxing exports then why does it not go further and apply the principle completely? It should then also refund the income taxes that have been collected from the workers who have been producing the goods and so on. Many countries do go some distance down this route with export incentives and other subsidies to their exporting industries. One also finds, on the other hand, that the importing country often levies some sort of sales or other tax but what is foregone by one country is rarely the same as that which is collected by another.

The result of this peculiar behaviour by most governments is that, in the absence of tariffs, it may be that neither the exporting

nation nor the importing nation garner the full tax revenue from the traded goods. The tax take from the local industries has to rise making them less competitive with the subsidised imports. No wonder world trade keeps expanding!

All of these considerations apart we have to consider the argument that is advanced in *The Sovereign Individual* to the effect that the Internet is going to make the collection of taxes so difficult as to be almost impossible and that this will lead to nations becoming ungovernable. The threat is that incomes will be hidden even more effectively than at present, that sales taxes and GST etc will become uncollectable and that banking will go into cyberspace and will be beyond the reach of the tax men. Certainly things will change. The methods of tax avoidance or evasion which are currently used by many of the wealthy will become more widely available. However, the same technology that gives rise to the problems can assist with the solutions.

If, as noted above companies are taxed only on their income within the nation (in other words a form of sales tax), then the fact that they have call centres or accounting centres outside the nation does not matter so much as overcharging for these services will not diminish their tax. At the moment if taxes on profits are lower in the country with the employment then there is every incentive for services from outside the country to be charged at an excessive rate so as to minimize tax.

The border problems of tax collection will certainly increase when more goods and services are bought using the Internet and where tax differentials are available for exploitation. If the exporting nation does not charge some of its taxes on exported goods and the importing nation does not charge some of its taxes on the imported goods one can expect an enormous change in buying habits. The huge number of transactions will make the collection of taxes at the border increasingly difficult with more

chance of failures to collect reinforcing the tendency for the number of transactions to increase.

If the goods are supplied via e-commerce from outside the nation the methods outlined in Chapter 3 for measuring the flows of money can be expanded to allow for the collection of the same taxes. Similarly the credit card companies can be required to play their part in tax collection.

The greatest problems may well be, strangely in an age of electronic money, with people carrying cash from one nation to another if the nations use the same currency.

Consideration however has to be given also to other means of raising taxes, preferably so that they have consequent beneficial side effects.

WEALTH TAXES

A major problem for most of the world is that “money makes money” and control of the world’s resources is getting into fewer and fewer hands. There is no doubt that, especially in recent years, the disparity between rich and poor has grown ever larger. Socially, there is beginning to be a desperate need to reverse this trend. Again, from my background in the theory of control systems, I look for “negative feedback” in order to achieve stability in a system.

There is a general principle in chemistry known as “Le Chatelier’s principle” which says something like “when a constraint is imposed on a system the system reacts to oppose the constraint”. It is more colloquially known as the “principle of pure cussedness”. I mention this because I believe that it is not in the long term interest of the seriously wealthy for them to become more wealthy. There will, in time, be a reaction to reduce the

disparity and it is better that this be done in a controlled, slow and civilized way rather than by a sudden cataclysm.

One possibility is to have “wealth taxes”. These are already common in the form of rates collected from property owners by local authorities. There is no reason why other major items of property ownership should not be registered and taxed accordingly. In some cases these taxes will of course be passed on to those who hire, lease or rent. It may well be that the charge on motor cars depends on the age and purchase price, the charge on properties may be graded according to the total value of all properties held by an individual, the charge on boats and aeroplanes might also be graded, insurance premiums on art objects might be loaded and so on.

It is a simple matter of equity to consider wealth taxes. A person on an income of \$40,000 per year with a sick spouse and a mortgage does not have the same capacity to pay as someone on the same salary who owns their own home and is the beneficiary of a trust which will provide for their old age.

Some time ago Mark Horsnell pointed out, in an email, that in his city the average land value was \$86,000, the average rates were \$2,178 and the average income tax was \$4,198. So if there was a tax of 7.4% on land value both rates and income tax would be covered. As indicated above I believe that a much lower percentage should be levied on the whole property value, not just the land value, and on other property as well. I do not think that we should completely abolish income taxes and I will discuss the form of them later in this book.

One virtue of such wealth taxes is that they catch those who have acquired property through illegal means, tax evasion, tax avoidance or sharp practice as well as those with inherited or normally earned wealth. If the property is not registered in your

name then you do not own it. Nominee ownership would have to be outlawed or sourced to the individual.

Another virtue of wealth taxes is that they fall on “absentee owners” as well as on residents. For example, many people following the “winebox” affair mentioned earlier believe that Sir Michael Fay made millions of dollars by tax manipulations before he left the country. Recently I sailed past the beautiful Great Mercury Island which I understand he owns. I wondered if he now pays any taxes in New Zealand. I am sure that he would want to have the defence forces, the police and all sorts of infrastructure available for his well-being and to protect his property. But he may pay nothing towards these costs.

There have been other attempts to use taxes to reduce the inequalities between the rich and the poor. One of these is death duties. But by using trusts, tax havens and hidden assets etc the really wealthy have largely avoided them. Therefore death duties have been abandoned in almost all countries.

Trusts are a demonstration of the power of the wealthy to influence politicians to enact laws for the benefit of the wealthy. There are truly charitable trusts where I have no problem with their privileged position. But it is now possible for an individual to set up a trust in which they retain control of the trust and are a beneficiary of it. This means that they can artificially spread their income between themselves and the trust so as to reduce the incidence of tax. What is more they can then “disown” their wealth so as to “protect” it from their legitimate creditors including the tax man. Since the trusts only have to be disclosed to the Inland Revenue Department and do not have to be registered or made public in any way the creditors cannot even find out that there is a trust which may not be old enough to enjoy the claimed protection. Again a wrong doer can take advantage of the Court processes to delay judgments until the age is sufficient. It will be claimed that there are legal processes to deal with this but the

costs, further delays and uncertainties make a mockery of the whole affair and highlight the inadequacy of our legal system.

In my view Trusts should be registered and should disclose the beneficiaries in a public forum. Where a beneficiary has set up the trust or contributed to it then such contributions should be available to creditors. Why should such a legal device exist to allow the "lawful" defrauding of others?

One tax which might be considered as a tax on wealth is a capital gains tax. However it is really another form of income tax where the capital gain is treated as if it were income. It does not deal with accumulated wealth. And the problem with a capital gains tax is that in all fairness losses have to be allowed as a tax deduction. In the USA this has, as one example, led to the development of computer leasing companies on a grand scale.

With the lease of a computer by, say, IBM to General Motors only the year's lease amount can be recognized in the books of IBM as income. The sales representative and all the way up the line are only credited with the year's income for commission purposes. However if a leasing company buys the computer from IBM and leases it to GM then all of the IBM people are much happier. They can then get their bonuses straight away. On a gilt edged lease of this sort the banks will fund perhaps 95% of the purchase price at the same interest level as IBM figures into its lease. If a wealthy individual puts up the other 5% then they can claim the depreciation of 25% for four years. If their tax rate is even 50% at the margin then in the first year they save 12.5% less 5% and less the 4% typically charged by the leasing company. So the "purchaser" is 3.5% of the total price better off in the first year and 8.5% in the succeeding years. The leasing company also gets the residual value of the machine at the end of the lease. Some advantages can also be offered to the lessee compared to direct leasing from IBM. Everybody is better off except the tax gatherer.

Capital gains taxes have possibly been the greatest legitimate means of tax avoidance yet developed.

In his book "Three steps to Economic Freedom" (available at <http://www.geocities.com/CapitolHill/1067/c004r4.html>) John O'Donnell concludes that a properly constructed progressive asset tax can actually optimise the growth rate of capital. Such a tax changes the perspective of collecting taxes from simply one of obtaining government revenue to increasing economic growth. O'Donnell sets up and uses a computer model which shows that basing tax on the asset value (wealth) of a business leads to lower prices, greater employment and greater production from the business asset than if the same amount of tax is collected as a tax on wages and profit.

This desirable result follows because the owner wants to maximise the return from the asset and to reduce the cost of idle capacity . Even though the marginal costs of production increase when the factory is nearing its limit and the price has to fall in order to sell greater volume the fact that there is no tax on the extra earnings means that it is profitable to go further in this direction than would otherwise be the case. I would not want to extrapolate this result too far but O'Donnell's work is at least interesting and thought provoking.

It is plausible therefore to suggest that a wealth tax may lead to greater economic benefits than an income or profit based tax. Certainly it should be harder to avoid and should therefore be more equitable. If income taxes were removed then the compliance costs would also be lower as the need for much of the accounting burden would disappear. Indeed perhaps only the relatively few corporations and wealthy real estate owners would be affected.

What would happen if one nation switched to a wealth tax and others did not? Particularly if the wealth taxing nation also abandoned income tax? The trick for people would be to get their wealth into nations which did not tax wealth and to get their income in the nation which did not tax their income. To the extent that the same amount of tax is collected and its incidence falls on the same people there should be no change. But the incidence would be bound to change. It would be desirable to collect tax on the wealth of persons resident in a nation regardless of the location of the wealth. This is probably easier than trying to tax income regardless of its location but is likely to still present some problems. However, the physical manifestations of wealth in terms of property etc will certainly be easier to detect than much of the potential maneuvering on the Internet. The danger of being discovered trying to hide ownership will be correspondingly greater so that there will be an incentive for true disclosure.

In any case, if individuals choose to sell their property and to migrate to another country then the new owner has to pay the wealth tax. Further, absentee owners who hold wealth within a nation must make their contribution to the income of the nation.

Problems arise when one considers the potential effect on investment in the nation. The position is more complex. For many investors, if the tax collected is no different in total one would expect no effect on the investment decision. But the temptation would still be to minimize the investment in the nation with a wealth tax.

However, for listed public companies there may be little difference between an income tax based on profit and a wealth tax based on the market value since the market value is a reflection of the profit and investments must be made to increase the profit. Other companies will also generally want their balance sheet to reflect a market value in order to increase their salability or borrowing capacity.

The result for a multinational company may well be to choose to invest in the nation with a wealth tax and to manipulate as far as possible to take their income in that nation rather than in another which taxes on income only.

The potential desirability of wealth taxes would seem to merit significant study of their possibilities.

OTHER TAXES

Other possibilities for tax collection abound. To help alleviate the problem of the information rich and the information poor (as well as a small compensation for the tax problems of electronic shopping) it would be reasonable to have special taxes on the income of telephone companies. This would certainly be easier to implement than the more complicated “bit tax” contemplated in one study by the European Commission. It would also appear easier to collect tax from something where the price is falling due to technological development rather than something where the tax will increase the price.

Carbon taxes have been promoted to raise tax on the scarce resources (petrol etc) which also lead to pollution. The merit of many of these taxes is that they would be easy to collect since they affect only a few suppliers, they would be difficult to avoid, they would probably affect the wealthy more than the poor and so on.

In summary then, there are many changes that should be thought through for the future financing of government activity. There are many ways in which taxes could be made more equitable and more useful for achieving social ends.

Many governments have become captives of the slogan “User Pays”. But if there is to continue to be what is coming to be called a “Civil Society “ it has to be recognised that the two slogans are

in conflict. A civil society provides at least some facilities for all of its members regardless of their age, status or wealth so that all the citizens can be civilised, can enjoy some level of dignity, culture, enjoyment and participation in the society. This has to mean that taxes will have to be spent in areas other than those in which they are collected. For example, in cases where the user causes pollution or other ecological damage, it may well be that they should pay vastly more than the damage that can be immediately measured in order that past problems can be corrected or that other worthy objectives can be achieved.

The major problems in changing the tax base are firstly the sheer problems that always attend change but more importantly the effects that follow from the fact that not all nations are going to do the same thing or at the same time. This, again, is where it is important to have a uniform tariff barrier to modify the effects of the differences and to allow changes to be made in a nation without drastic reactions by the marketplace. For example, a tariff could well mitigate the tendency for a wealth tax to reduce investment in a nation. In my own mind a general tariff is essential to the long run ability of any nation to be different or to progress. It is not just a matter of economics but of system stability and manageability.

Certainly there is a need for nations to review the way that they levy taxes so as to promote stability and the orderly management of changes that they desire and which may be different from the desires of other nations.

CHAPTER 6. EMPLOYMENT AND SKILLS TRAINING

I have, so far, concentrated on the financial health of a nation and the laws by which it is governed. But it is people who make up a nation. What of the well being of the people within a nation? Surely it is this which is the ultimate reason for having a nation. It is entirely possible for poor people to be happy and for wealthy ones to be miserable but health and pleasant occupation are amongst the greatest contributors to happiness. For the moment let us consider the problems of unemployment.

Virtually all nations have levels of unemployment which they consider to be unsatisfactory. None has found a successful way of dealing with it. It is now widely recognized that the social ills which follow from unemployment are manifold.

Also, the free market philosophy which proclaims that a free market leads to greater efficiency is no longer as widely believed as it was. It is indeed hard to believe that any nation can be better off with a high level of unemployment. It may be true that specialization and mass production result in the productivity of one person in one nation being as great as six people in another nation. But if the six are idle the total productivity of the second nation must be lower than if they did something.

The suggestion made earlier regarding the linkage of a uniform tariff barrier to the level of unemployment will go a long way towards dealing with the problem at the macro level. But how then does one go about the problem of developing the skills and management abilities that are required to take advantage of the economic opportunities that are created? How does one get the unemployed into productive work?

With the advance of technology the issue is no longer one of productivity in terms of goods. The number of people employed in

producing goods has steadily diminished so that, in many nations, more than half the work force is employed in the “service” industries. It is likely that the spread of brand named products around the globe now has more to do with the economies of scale in marketing than in production. For many goods small scale manufacturing with automated equipment is as efficient as large scale manufacture. But a really telling television advertisement which costs half a million dollars to produce might be just as effective in almost all countries around the globe.

The most spectacular situation occurs with computer software. Some suites of programmes cost millions of dollars to develop but their “production” costs may be only 2 or 3 dollars per copy – whether they are produced in a run of tens or millions. Production could be concentrated in one place globally or spread through many nations with little effect on the production costs. The big components of the selling price are the costs of development and marketing. There is a further large cost in supporting the product as people are learning to use it. All of these functions require clusters of skilled people. For the most part their skills are much greater than the skills required for production.

One might consider that the transfer of employment from the “developed” to the “undeveloped” nations that has occurred over the last decades is equitable and just. Indeed this transfer can be seen as a triumph of the “free market”. This transfer has largely left the high skill clusters in the developed nations.

Robert Reich, in his book *The Work of Nations*, points to all the employment that flows from having what he terms the “symbolic analysts” resident in a nation. Without these people there can be no clusters of high skill industries. The question of who owns the results of their work is of much less significance. There is a chicken and egg situation. Investments are made where the necessary skills are available and the skills gravitate to where the investments are made.

David Kortens recent book "When Corporations Rule the World" focuses on the bad effects which have stemmed from the operations of multinational corporations. He largely ignores the good effects. But none-the-less he conveys a clear picture of where the world has got to in terms of trade and employment and where it is going. The global corporations make their decisions about the location for their developments primarily on what is good for the corporations. The lure of cheap labour in extreme cases can be offset by the level of crime, social unrest and political instability. Primarily the corporations want to be able to use what is there – they do not want to have to create all the supportive infrastructure.

The problem for any nation is how to survive in the environment of global free trade - regardless of whether they agree with this environment or not.

Most people have now come to accept that unemployment is more than a temporary phenomenon. It has always been present in the global economy. Sometimes it has been confined to some countries or some regions and sometimes to others. But it has always been present in the global picture. Yet there have always been things that needed to be done. In spite of the best efforts of governments and economists it has not been possible to bring the needs for employment and the work that needs doing together.

For the most part the measures that countries have adopted to treat the unemployment problem have been palliative rather than curative. Predominantly they have been tried in many places with similar results - an alleviation of the poverty that results from unemployment rather than a cure for the problem.

Is there a cure or a better method of dealing with unemployment?

Some time ago I had the good fortune to work with a sub committee of the Hutt Valley Action Taskforce to develop some ideas which were next endorsed by the group. There has been no acceptance of the ideas at the national political level. This is probably more of a commentary on the political processes rather than the merits of the ideas. Let us now consider them.

NATIONS NOW COMPETE FOR EMPLOYMENT

As noted earlier Robert Reich advances the argument that it does not greatly matter whether the productive capacity is owned by locals or foreigners but that the key to employment is where the clusters of highly skilled capability are located. He makes the point that if a person does one task at the leading edge of something that is in the ascendancy then that person is equipped to do the next task at the leading edge of the technology or idea. Such persons are in international demand. They tend to cluster in centres of excellence and to bring employment in all the service industries that they require. Robert Reich makes an excellent case for the argument that it is the presence or absence of high levels of skill in communities that will determine their future well being.

The old exploitative industries that relied on the use of physical resources may continue to be located close to their sources of supply - although even that is less certain - but there is a chicken and egg problem with respect to the service and other industries that rely on the skills of people. If a nation has skilled people then it has a chance of getting industries that require such people to locate in that nation. Once there is such an industry in a nation then the skill levels of the people concerned increase, the infrastructure that they require develops and a centre of excellence arises - attracting other like companies and industries.

Nations must therefore compete with other nations which would like to attract or retain industries and employment. Nations must

compete on the basis of the skills of their people - as well as on other counts.

The skills of a nation's people are even more critical if locally owned industry is to develop rather than having local offshoots of a global corporation established within the nation.

WHAT SHOULD ONE DO – WHAT CAN ONE DO?

Clearly nations should upgrade skill levels throughout the community and seek to enlarge existing employment opportunities, attract new ones or develop them for themselves. But there are two major problems for nations with low skill levels - falling levels of skill on a comparative basis as other nations use their multipliers on a higher base and inability to fund skills developments.

It has been recognized by many people that future levels of employment depend on a nation's level of skill vis a vis other nations. A nation may be fortunate in its level of physical resources but if these are merely exploited and exported in raw form they will do little to solve unemployment problems.

Also the increasing amounts of knowledge that need to be transmitted are putting unsustainable strains on the funding of classical means of education and training. This is exacerbated by the costs of training unemployed people - especially if no one is clear what they are being trained for.

Indeed when one views the huge number of jobs that are advertised in New Zealand and elsewhere and which require skills that do not exist amongst the unemployed then one might well regard unemployment as a failure of the education and training systems. In this case it is rational to view the government expenditure on education and all of the costs of unemployment as a whole instead of as two separate parts. If spending more on education reduces unemployment then government finances are

better off. From one narrow point of view the true measure for the output of education is employment. By requiring the education vote to bear the costs of its "failures" a better measure of overall efficiency would be obtained. In the age of the ascendancy of "the market" it would seem reasonable to have a Minister for Education and Employment rather than separate Ministers and Departments. One would have to ensure that the employment issue did not overshadow the other aspects of education. Possibly one should go as far as having a Minister for Education, Employment and Culture.

It is perhaps worth noting that from 1984 to 1996 California built 21 new prisons and only one new university. I suspect that they have got the balance wrong. One should also, I think, count the persons incarcerated and their custodians as unemployed. Certainly they are not very usefully employed as far as creating real wealth is concerned.

Clearly however this unemployment is only one part of the story. How do we fund the development of the skills that industry requires? And with rapidly changing technology how do we offset the depreciation of the human capital that occurs? The personal and government investment in education early in life erodes more rapidly now. How do we arrange to continually maintain and enhance that investment? Where do we get the new paradigm for the new age?

Up to now we have tended to equate education and training with "schooling", i. e. with what is learned in some form of institution. There has been a separation of learning in institutions from learning on-the-job. Both have their place but governments have largely seen their role as funding only institutional learning. It is natural that governments should therefore have bureaucracies to deal with education. They have largely failed to recognise that much of the training for an industry is best done on-the-job.

It is clear that if industry at large is to spend its own money on training then it wants to choose what it spends the money on and not to subjugate this to the decisions of other agencies including their competitors. This should not come as any surprise to any advocate of the supremacy of "the market".

There are other problems. The things that differentiate one company from another are not easily shared with competitors or with outsiders in university or other institutions who will teach the skills to competitors.

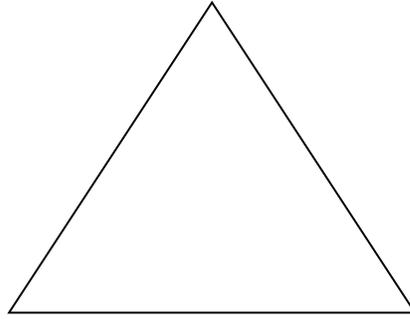
Again for many people and many companies the desired formal qualifications are, and are increasingly likely to be, offshore and globally recognized qualifications such as Microsoft Certified Professional or Novell Certified Engineer.

Is the need then for a new paradigm for the melding of industry and institutional training in order to develop the skills that are required to compete in a global economy? And how can a nation support such a development?

THE SKILLS PYRAMID

We can begin to get a glimmer of the potential solution to the various questions that have been raised so far by considering the nature of the "Skills Pyramid".

In any discipline there are skills and knowledge which must be acquired before other skills and knowledge can be understood. Also in any organisation there are skills which must be learned before other skills. There can be transfer of skills between organisations but essentially we can represent the levels of skills in any organisation diagrammatically as a skills pyramid.

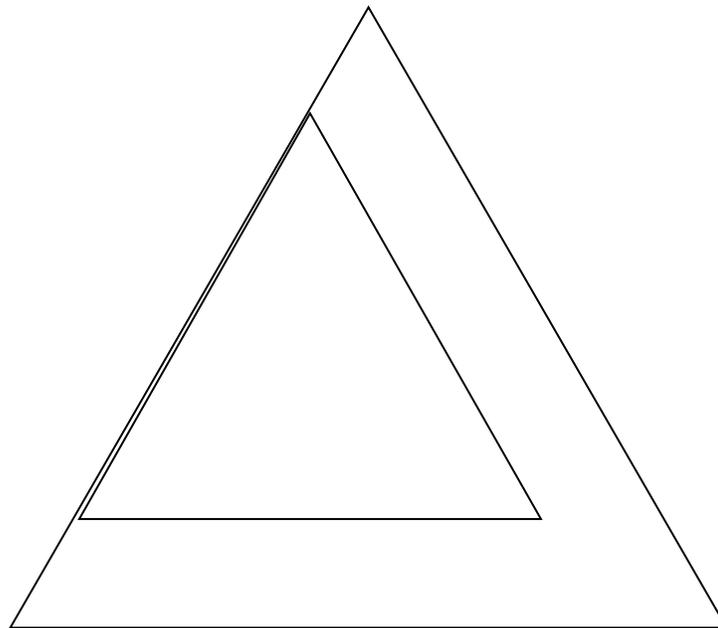


The Skills Pyramid

If we are to make the organisation bigger - in other words to create more jobs - then we must add to the Skills Pyramid in order to make it bigger. Whether we add to the side of the pyramid or the bottom or both is immaterial.

So we need more training of those in employment at all levels in order to move them up the skills pyramid and to make room at the bottom for those with no experience, or no recent experience of employment. (The argument here contains some heroic simplifications for the sake of clarity).

We have to do something like the following:



Hopefully, these diagrams give credence to a simple truth namely that

IF WE ARE TO INCREASE THE NUMBER OF PEOPLE EMPLOYED WE MUST UPGRADE THE SKILL LEVELS OF THE PEOPLE WHO ARE ALREADY EMPLOYED.

This really follows from Robert Reich's observation that the people who have just done a job are the best suited to do the next similar job, which is why one gets centres of excellence and employment around the world.

Industry does not want to be compelled to spend money on training. This will not surprise those who have experienced the reluctance of managers to spend money on training in order, as they saw it, to make it more attractive for others to poach their trained staff. This dog in the manger attitude has some foundation in reality. The company that bears the cost of training is often not the one that obtains the benefit of that training.

Again, it is no longer merely a matter of giving someone an allowance, or even paying their salary while they go through University or Polytechnic. The costs in fees are much higher now. And increasingly it is necessary to have the training for an industry done within that industry. The costs of supplying educational institutions with the necessary equipment are simply too high, the rate of change is too fast, and the diversity is too great. When the capital required per worker was, perhaps, \$2,000 it was possible to provide a "working environment" for students in an educational institution. When the capital required per worker is \$20,000 similar provision becomes more difficult.

Businesses generally, by accounting convention, cannot show the value of their greatest assets, their people, on their balance sheets simply because people can walk away. The business can deduct the costs of training as an expense but this is not enough - especially if the fact of upgrading the skill of an already skilled

person increases the chance that they will be "headhunted". At the very least they will have to be paid more to retain them. So why not sack them and, with the higher salary, recruit someone else who has been trained by your competitor thus doing an injury to the competitor and saving the costs of training? (The "Transfer Fees" paid for soccer players etc represent one approach to this problem).

If every employer waits for the need to become acute and then buys specialised knowledge rather than developing it in their own employees there is an inevitable deficit of those skills in the country. It is not just the cost of the training itself but the salary while training is taking place and the accompanying disruption that are problems.

The disruption that occurs while training is an important issue. The position vacated by a person while they are being trained needs to be filled. If we can increase the time spent in on-the-job training throughout a country by even as much as 5% of working time then, if it is properly organised on a regular basis, we should expect 5% more jobs to be on offer and many current unemployment problems would practically disappear.

If, for the good of the country, the necessary investment made on training of those in employment is to be made then we have to find a way of recompensing those who bear the cost of the training.

What is more we have to find a way of doing this which does not add to the existing burdens of managers, does not require the obtaining of bureaucratic consents, or explanations of why one considers particular training to be necessary, or who or what is considered suitable training.

In other words while we have to find a way of recompensing those who train their employees it should be a way that

unleashes the full inventiveness of "market forces" to deliver such training. It should be a way that allows people to find new ways of delivering and organising training as well as using the traditional methods and institutions where these are judged to be appropriate.

THE GOVERNMENT RESPONSE

Again, of course, it must be a way that does not make great demands on government funding - although government has always spent huge amounts on education carried out through the regular institutions. Arguably much on the job training will be more cost effective and therefore more deserving of government funding in any case.

We need to find a way for government to show that it is not just funding the supply of skilled people but is actively stimulating the demand for labour market investment in a progressively skilled work force. What they become skilled at should be decided by the market. If organisations are prepared to spend their own money for training, whatever that training happens to be, then it is deserving of support by government because it enriches the country as a whole as well as, perhaps, the organisation and the individuals. Even if the training is misplaced the experience of giving and receiving training is itself an important and enhancing experience. Training is a public good just as much as classical schooling. How then should we give this support?

One past example of New Zealand Government support has many of the desirable attributes. This example was devised to change the way that New Zealand companies considered exporting. There were some peculiarities in the way that these old export incentives were set up but they were remarkably effective at achieving their objective of getting companies to enter the export field. They were purely tax incentives with no oversight by any bureaucracy but with the added advantage that when a company was in a loss situation money was paid to it by Inland

Revenue. If the same principal was applied so that organisations received some return on their training expenditure even under loss making situations then they would be better placed to retain staff and refocus their efforts to survive.

So we come to a principle that

**GOVERNMENTS SHOULD FOSTER TRAINING OF
THOSE PRESENTLY EMPLOYED BY MEANS OF TAX
INCENTIVES FOR TRAINING WITHIN INDUSTRY.**

SUGGESTIONS

There are a number of ways in which the upskilling of employees could become a normal and routine matter in all organisations. The following ideas are intended to establish the principles to be followed. They might then be applied in other ways also.

1.The pay-as-you-earn income tax (if that still exists) that would otherwise be paid on the salaries of those giving or receiving training should be retained by the organization instead of being paid to the Government.

2.The costs of purchasing external courses or equipment for staff training should be deductible as an expense.

3.Appropriate rules for these purposes should be established in such a way that organisations do not have to seek any bureaucratic approval for what they do. If an expense falls within the rules then the organisation should receive the benefit as of right.

4.The importance of voluntary organisations in training people in many areas should be recognized by allowing those on unemployment benefits to have low paid work for authorised voluntary organisations without deduction of any benefit payments.(This may seem unrelated to the other suggestions but

is in fact another aspect of the same issue. It is concerned with improving the distribution of leisure and of wealth in the community. At present we tend to have the "frantic rich" who have jobs, money and no time as compared to the "leisured poor" who have no job, no money and lots of time. One needs the productivity of leisure to be able to absorb training.)

5. The costs incurred by persons, over the age of perhaps 17, in acquiring education and training for themselves should be tax deductible and accumulatable as a tax loss. If the cost is borne by a parent then it should be deductible by the parent.

CONSEQUENCES

By making students pay for their education governments around the world have (whether one agrees with the process or not) gone a long way towards creating a competitive market in the supply of education. The organizations supplying education have to compete for the student dollar.

But the demand side has not been attended to. Students are no better off than they ever were. In fact with employment problems it is harder for students to finance an education. The suggestions above can be seen as providing a stimulus for the financing of the demand. We might then get a more effective market in this field and more finely honed specialist skills for the needs of industries.

Hopefully there would also be discerning employers who realized that the classical subjects of university study such as history, languages and other "humanities" are important for building teams and cohesiveness in the workplace as well as in the wider community. The development of society at large is not very different from the development of a culture in the workplace and requires the "soft" skills of communicating, listening and understanding. Many feel that these things are better learned from the humanities than from the more technical subjects.

What is reasonably certain is that in the short term more employment would be created, in the providing of skills, in the acquiring of them and in the replacement of people being trained. In the long term the country as a whole would become more highly skilled, more productive and more competitive.

So far as suggestions 1 and 2 are concerned the costs in terms of tax revenue would probably be slight. Indeed to the extent that more industry is started in a nation and ultimately becomes more profitable the effect could well be positive.

If the tax on the people who are already in employment is lost then the tax on their replacements would be gained. Presumably the replacements would be at a lower salary (though not if they were "temps") and in this case there would be a loss. But to the extent that somewhere down the line an unemployed person is recruited then there is also a saving on their benefits. Where organisations are already carrying out training and choose to retain the tax benefit from the suggested regime as higher profits then some of the lost tax would be collected from these profits. But, to the extent that organisations are already training and do not change their behaviour or level of profit then some of the tax concession would be lost revenue to government. But this unlikely cost may well be outweighed by the benefits of a more skilled community, a more attractive industrial tax regime and the reduction of all the problems associated with unemployment.

The same sort of arguments apply in the other cases. Many of the voluntary agencies provide social services which might well have to be funded by government if the voluntary services were not there. They provide a great deal of training which otherwise might require government funded institutions and they also provide some employment. Expansion of these organisations with the concession noted above may well prove to be a benefit to government revenue.

Suggestion 5 carries through the logic of not taking tax on training and education in the recognition that this encourages investment in these areas, and that this investment will lead to a higher tax base in the future. Indeed it is vital for a nation's future competitive position in a world dominated by market forces. In any case the students pay tax on the money they earn. The effect of this suggestion is simply to allow them to get much the same benefit as if they formed themselves into a company and took advantage of suggestions 1 and 2.

Finally from such an environment nations may well get a new industry. They could well become a recognized Centre of Excellence in Training and Education with great export and other spinoffs.

Clearly nations need to take a new approach to the question of employment and to recognize, with more than lip service, that their long term competitiveness as a nation requires far more in terms of education and training. This cannot be done by government alone, or by any particular ministry, industry or organization. The efforts and inventiveness of the whole nation need to be brought into play. However, governments can use their taxation regimes to bring this about without significant effect on their revenues.

Many nations have recognized that their future depends on their inventiveness as a nation and give tax incentives for research and development of "things". Strangely it is not so well recognized that there is an even greater case for tax incentives for the development of people.

CHAPTER 7. INDUSTRIAL POLICY

Significant new industries do not arise in a nation by magic.

Where a country is significantly endowed with a material such as oil or timber which is needed around the world then many organisations will want to exploit the commodity. They will generally want to move the commodity to feed their current processing plants. The commodity trades are already well established and have arisen largely without conscious effort or direction by the nation's government.

But how does a nation get new industries established within its borders? There may be several answers.

Let us consider first an approach which failed. For some forty years New Zealand applied the "infant industries" argument and sheltered its "new" industries behind tariff barriers and import licensing which were explicitly designed for the protection of each individual industry. The result was increasing inflexibility, distortion, lack of choice, complacency and lack of competitiveness. However, the results were not all bad. There was a huge transfer of management and technological skill to the local population combined with full employment.

When the change came in New Zealand it was extreme and traumatic. It is well described in Jane Kelsey's book "The New Zealand Experiment". Again there were good and bad results. Where previously it could be said that New Zealand had an industrial policy of sorts (namely, to provide employment) quite suddenly there was no explicit policy.

With hindsight there were several obvious problems with the old policy. Firstly, because every different product had a different import regime and a different tariff the playing field, if we can call

it such, between different industries was grossly distorted. Instead of industries being able to compete freely with one another for resources they tended to be fixed in a time warp. Secondly the choice of industries to protect was misplaced. Because an industry was new to New Zealand it was regarded as an infant industry. Usually it was an industry which was already mature in other parts of the world and for which New Zealand had no comparative advantage. There could therefore never be an export market for that industry because it would be uncompetitive and would have to overcome the opposition of entrenched industries in other countries.

A common tariff for all products and the removal of import licensing would correct the problem of distortion as between industries and the greater protection afforded some and not others.

But what industries should a nation seek to attract or develop? And how?

Some clues can be found in considering the difficulties that attended the setting up of the first oyster and mussel farms in New Zealand. Here one enthusiast spent eight years trying to obtain approval to start an oyster farm. He then ran out of money and energy. There was no authority that could give approval but many that could deny it. Another party then entered the fray and after three years managed to get approval. The industry then took off.

So if governments choose the industries that they want to have, publicise the fact and immediately remove the bureaucratic barriers then they may have to do no more in order to have new industries. In some cases the government may need to seed the industry by having local companies carry out government tasks.

Governments could of course be really proactive. The Japanese were not known for their production of automobiles or electronics when they chose to have these industries. But with the assistance of the government department MITI they have come to be world leaders.

EXTERNAL EXPERTS

New Zealand has long been afflicted with the “Overseas Expert” syndrome. This is not surprising in view of its colonial past but it is a dreadful roadblock in the development of local business, industry and skill. There is only one government in New Zealand therefore it is easily assumed that no New Zealand based company can possibly have the requisite experience to use new technology, or even very old technology, to carry out a major government task which has not been done before.

It never seems to be realized by bureaucracies that knowledge and skill is possessed by people rather than institutions. Also, that any competent professional has a good appreciation of what they don't know and who does know. In some cases it is true that the clusters of people with all the required skills only exist in particular organizations. But in many cases for a large project there are only a few particular specialists required and the great bulk of the work can be done by local professional and skilled personnel. The specialists can be recruited on short term contracts and much of their skill learned by the local personnel.

A particular experience may serve to highlight the issues. The INCIS system has been mentioned earlier. This contract was let to IBM and was a disaster. Both government and IBM lost around \$50,000,000 and the project was abandoned. The New Zealand Police continue to run its predecessor – loosely known as the Wanganui Computer System. I was one of a number of architects of this system and we never contemplated that it would still be in use more than 20 years later. But my company, Progeni, in joint

venture with two overseas companies were responsible for the software development. The development team comprised 14 of our local Progeni personnel and six from overseas plus two from State Services Commission. Of the six from overseas only three were actually employees of the joint venture companies. The other three (including the most valuable one – the forceful, slightly abrasive, project manager with a wealth of experience installing police systems) were freelance consultants recruited specifically for the project. We could have employed these people directly. The only new thing contributed by the two overseas organizations by way of institutional input was their reputation. We, speaking collectively now, brought the system in on time, on budget, exceeded the specification, made a profit and paid tax on it.

In spite of this successful example when it came to the development of the successor system there was apparently no way that any of the locally owned companies could be considered by the bureaucracy to take a lead role in the development of INCIS. A local company or consortium could hardly have made a worse mess.

There are many similar examples in all professional areas. The employment of overseas and big name organizations is no guarantor of success. This comes from the people who actually do the work.

I have seen several cases where government has specified that New Zealand resources were to be used to the maximum reasonable extent. One was the letting of one of the “Think Big” projects. The designers – Bechtel Corporation - naturally specified the things they were used to rather than what was common in New Zealand. The New Zealand organizations of course could not then deliver in many cases.

In other cases the contracting company has simply recruited locally demonstrating that the skills were available here but the local companies were not trusted with management of the process. Here is a chicken and egg problem. If local companies are not given responsibility for carrying out government projects then they never get the experience and cannot claim to have done government projects.

On the face of it a reasonable requirement in a specification is that bidding companies must have a track record of carrying out similar tasks. This type of clause is endemic in New Zealand specifications. It is not nearly as common in other countries. Since often - and especially in new technology fields - government wants a new type of task performed no local company will have carried out such a government task. They are automatically excluded from bidding or, even worse, are not considered seriously when they do bid. Yet, if they are competent organizations, they will buy in such support as they need in order to bid on and carry out the task.

Since government collects tax from employees, company profits and all of the investments for infrastructure development of the company etc it can expect to recover a quarter to a third of the cost of work done in New Zealand. Again, there may be savings to be had from reduced unemployment payouts. This should mean that it can afford to accept local bids even at a higher price than a "foreign" bid. Usually the mind set is that the big company or overseas company must be better than the local one which will only be accepted if the local bid is substantially lower than the others.

Local knowledge is not given the weight that it deserves in many cases. I recall, over twenty years ago talking to one of the senior members of the Touche Ross team who were given the task (under highly questionable circumstances) of installing a system for the Health Department. This man was responsible for

designing the communication system and had been on the job for nine months. He was distressed to have just found out that there was no Watts (high speed long distance telephone system) available in New Zealand. It had not occurred to him to enquire and his design basis was seriously in question. Some \$30,000,000 dollars was invested in this system before it was largely discarded.

USING THE LOCALS

The point of all this is that unless it has full employment any nation that intends to upskill itself and to develop new industries should take the message that its own people have the same size heads as others and are capable of learning to do what others can do. They should have the opportunity if they can show that they are even reasonably credible.

An important corollary is that when no-one has done the particular task then if the local people can do it, with the assistance that they can buy-in, then it is the local people who become the experts. It is then they who manage the project and learning how to manage projects is an important skill of its own.

Here then is the beginning of an industrial policy for a nation, particularly for nations such as New Zealand. Government projects should be contracted to local companies and the local branches of multinationals should not enjoy any preference over locally domiciled companies.

Such a policy requires a major change of mind-set. One of the difficulties in a small country is that the bureaucrats often genuinely believe that because they are a part of government they necessarily are the most expert in the country. Thus they believe that if they personally don't know then no one else in the country does and it is necessary to go overseas. We had an experience with the old New Zealand Post Office who wanted to install a packet switch system. They toured the world to see

systems in operation but would not walk one block to see the system we had running in the PSIS building – literally 100 metres away. They let the contract to a French firm – the system never worked as specified.

There are many other examples but let us consider some possibilities where there are local problems which, if solved locally, have the potential for import substitution or export

SOME POSSIBILITIES

One of the inhibitions about Genetic Engineering is the huge ethical dilemmas that arise. The potential benefits are enormous but so are the risks. The nations that first resolve these things and establish a clear set of rules under which developments can proceed might well become the centres of excellence from which huge developments follow. A small country should be able to be at least one of the first to clarify its laws and regulations. Does the country want such developments or does it not? What is the policy?

Genetic Engineering is a seminal area with implications for health policy, education, agriculture and so on. There are many specific possibilities where government might choose to let contracts to local organizations for research development and implementation. Breast cancer, haemophilia, other cancers and so on in the health field; problems with sheep, cattle, plants, pests – the list is endless. So too are the dangers. It is interesting to speculate on how one might endeavour to contain a human equivalent of foot and mouth disease if such a thing were inadvertently developed and set loose. High rewards and high risks!

The fishing industry should appeal to New Zealand with one of the world's greatest areas of sea per head of population. We are still largely in the hunter/gatherer phase of development. Given proper support from government we should become world class

in the whole field from the building of fishing boats to fish farming and husbandry. There are many conflicting interests. It should not be a responsibility of some lone enthusiast to spend their life trying to unravel the existing, and sometimes still unformulated, regulatory minefield.

Again here in New Zealand we see the health field as a cost rather than as an investment. We do not see it as an industry with an enormous global potential. But with our physical environment we should be a center of excellence in health. We should be able to establish a huge international business in curing not only our own but other peoples ills. We need to clear the way for sick people to come here to be cured. Again the regulatory problems are acute. It is hard to get immigration clearance at the best of times but harder when you are sick. Imagine the problems for an entrepreneur wanting to establish a geriatric clinic and rest home for aged Japanese in Northland for example.

These sorts of impediments should be thought through and resolved. The industrial policy for government should be “make it possible”. Then it may happen, even without further government input. Foreigners should be able to have their operations or treatments and then recuperate in our pleasant surroundings. The biggest barrier may well be the supply of doctors – again this is a problem to be addressed at government level. At present too many of our best brains (as well, I fear, as many of the worst) go into law and accountancy.

Education is another field where much careful thought is required. The computer revolution has arrived on the doorstep of our educational institutions. I think it strange that we have spent so much time and effort in developing New Zealand Qualification Authority standards and procedures. It will soon be as easy to do a Harvard MBA via the Internet as it will be to do a Massey University MBA by the same route. Which would you choose for your future? It is good to see a few of our educational institutions

moving to internationally recognized qualifications. I believe this to be the path for much of our education system in the future. At the same time it will be essential to preserve our own values and culture.

New Zealand should in my view become a center of excellence in “tutoring” rather than in “lecturing”. Books were always a tolerable substitute for lectures and, properly used, the new technologies improve on books. But the time when you want the “teacher” is when you go to apply what you have learned and can't make it work. I think the teaching role will change dramatically – Instead of being an “english teacher” or a “mathematics teacher” a teacher will be more like a coach to suggest, cajole, assist and help to choose what to study next. It will become more important to tutor than to teach. We should provide the environment and expertise to get our own and foreign students qualified. This will require the laboratories and practice facilities rather than the lecture halls. We have a chance to be a center of excellence in the new ways to learn. And we have to stop considering education as a cost but to see it as an investment.

Education will continue to be a growth industry. As more knowledge is accumulated more has to be taught. A new technology, or a new system will give a temporary respite but it is reasonable to expect that, overall, future generations will have to spend more time in getting to the frontiers of knowledge than was the case in the past. Every nation will have some things that others want to learn whether it is the local language, history, customs or indigenous technology.

Another industrial focus for New Zealand could be our house building industry. The beginnings of it are well established but we could become a center of excellence in customized precut and prefabricated timber houses. It seems that there is always a disaster somewhere needing new and replacement houses. We could make the supply a part of our aid programme to establish

the trade. And, with thought, some of our own needs and government contracts could well be met with the same modular designs.

All industries do not have to be high-tech. For instance, I cannot understand why New Zealand bureaucracy has for so long frustrated the attempts of some entrepreneurs to export our abundant rainfall. In the long run water is more important than oil yet our wealth, in this regard, just runs into the sea.

A NEAR THING

There was one occasion at the beginning of the eighties when we nearly did something right in New Zealand so far as industrial development is concerned.

At the Wellington Polytechnic the Electrical Engineering staff realized that there was a need for a computer specifically designed for teaching purposes. They made a prototype and got the Education Department excited about the idea. The Development Finance Corporation was appointed by government to act in a role rather like that of NASA when the U S Government decided to put a man on the moon. The DFC was to provide some finance and to coordinate the development by local companies.

I thought this was wonderful and that at last New Zealand had turned the corner in its approach to industry. If we solved the local problem there was a world market. I was assured that if the requirements laid down by the Education Department were met then Government would buy 1000 units a year for five years. My company committed to provide the professional support required and \$250,000 worth of effort to develop the operating system and support software. The Education Department marshalled about 60 committed teachers to work through their long vacation developing course material. The introduction of computers to

New Zealand schools was planned properly with provision for staff training, development of curriculum material and so on.

It was an exciting time. There was huge commitment and dedication by a lot of people. Astonishing resources of skills were discovered. Over fifty local companies were suppliers. We built enough machines for two classes to trial them. The Department's requirements were well met and we thought we were under way.

Government then reneged on its promises. It was totally inexplicable. DFC, being Government owned, then contradicted its earlier claim to have the promises in writing. A Cabinet Minister later told me that he and his colleagues in Cabinet "could see no reason why Government should spend money so that teachers could do even less work". I actually prefer that explanation to one that I was given later to the effect that a former Minister of Agriculture had put most of his money into establishing the Apple Computer agency. This was run by the campaign manager for another member of Cabinet. The supposition is that the decision was made on grounds of personal interest. Certainly it emerged later that Cabinet never considered the briefing papers that recommended proceeding.

One result is that the schools did not get the planned, integrated, efficient system for the introduction of computers supported by proper course material that they deserved. To this day, over 20 years later, we have a mish mash of systems created by dedicated teachers and parents raising money by cake stalls and the like – better than nothing but an indictment of our system.

Had Government done what it promised, New Zealand today would almost certainly be a center of excellence in the production of computer based training with many thousands of people employed in the industry.

This can be seen from what might still have happened if my company, Progeni, had not been destroyed, along with many others, by the Bank of New Zealand's irresponsible behaviour in 1988 and 1989. The story might be instructive.

Progeni carried on with the development of the Poly computer. We were badly impacted by Apple Computers choosing to make precisely our market (the secondary schools) the first outside the US where they would offer their machines at special educational discounts (I understand that they had US tax incentives to do this). Faced with Apple machines at one quarter of their normal price we could not compete.

We had some success. For example we won a tender for the Australian army from a field of 42 bidders. Three years later the New Zealand Army bought the same system from us.

We identified China as an emerging market with enough difficulty of entry to discourage some competitors. After visiting China in 1982 we developed a new machine – the Poly II - which was the first in the world to handle Chinese characters as quickly and naturally as English. The Agricultural Bank of China (they liked to say that they were only a little bank – they only had 42,000 branches and one and a half million employees) signed a memorandum of understanding with us a week after the BNZ put the receivers in.

The memorandum was to confirm that the Agricultural Bank had chosen our Poly II to be their training machines. At the time we had ten of their people in New Zealand undergoing training. Later, when Progeni had been destroyed by the receivers, we not only had orders from the Agricultural Bank but also requests to negotiate supplies with the Fermentation Research Institute and the Petroleum Research Institute who then had money in their budgets. Sadly, we could not comply. The BNZ and the receivers of course had considered anything to do with China to be

valueless after the Tiananman Square episode. This was as stupid as thinking that anything to do with the USA was valueless after the Watts riots.

SUMMATION OF INDUSTRIAL POLICY ISSUES

There may be some countries which have so little unemployment, both current and prospective, that they can leave the question of what people are to work at to “the Market”. In all other countries the issue needs to be addressed at a government level.

The examples given above reinforce the view that in many cases all that is required is for the government to provide a focus for new industries. They need to remove the bureaucratic barriers and to define the rules so that the private sector can make it happen. Sometimes only focus is needed – to say that this is an industry we will have. Once the direction is set students and institutions can then choose their courses, entrepreneurs can operate, financiers can learn about the industry and so on – there starts to be a self fulfilling prophecy.

In other cases governments need to use local industry, local managements and local people to solve the nation’s problems whether these are problems of health, education, crime, energy, transport or the like. Local industry cannot do everything on its own but by stretching the local ability that ability can be made to grow.

In still other cases government should fund developments to solve local problems where solutions do not exist or need modification. Again they should use local companies and local managements. It may be that they are branches of multinationals but they should be using local people who will develop skills accordingly. The preference should be for locally based companies.

I believe these principles to be valid for all nations. In some cases it will be difficult to define areas of natural advantage. But even a country with large areas of desert could well choose to become a center of excellence in the development of photovoltaic systems for turning the sun's energy into electricity which can be exported – possibly in a stored form.

CHAPTER 8. EDUCATION

Our world grows ever more complicated. “We” know more and more. Unfortunately “we” die off. There is more and more to be learned by the young in order to preserve the learning of their forebears. Sure, there are books and videos etc. These, to a greater or lesser degree “capture” the knowledge. And much knowledge becomes irrelevant with the acquisition of new knowledge. But how do we pass on the knowledge that is required to maintain and improve the world we live in and get that knowledge into people’s heads? How does anyone even know of the existence of the knowledge? How do we pass on experience? And skill? What of wisdom?

All of the above are fundamental questions. As we have learned more about the way our brains work and as experience is passed on our organizational and teaching techniques have improved. However, there is considerable merit in the postulation that was made some years ago to the effect that mankind’s total sum of knowledge will ultimately be limited by the fact that our lives are limited. Thus, ultimately, the effort required to teach and learn that which is already known will be such that there will not be enough resource in the community or length in the lives to further extend the frontiers of knowledge. This may seem a rather esoteric idea and we may be some centuries away from being seriously impacted by it but some of the effects are already visible.

Two thousand years ago a roman centurion would have to personally teach his troops to have the flat of the sword horizontal so it would pass between the ribs of an enemy. But a great revolution in teaching and learning came with the advent of books.

Books have been an incredibly successful technology for passing on knowledge even in the practical subjects but even more so in the theoretical area. Books have allowed the teacher to be separated in both time and distance from the pupil. It is hard to contemplate serious education without books. They are the repository of our banks of knowledge in libraries, classrooms and homes.

The distinction between education and training is made clear by considering the reaction of parents to their daughter telling them “we had sex education at school today” or the alternative “we had sex training at school today”. The implication of one is theoretical and the implication of the other is practical. However, I will use the word education to include training unless I specify training separately.

The strains on education systems around the world are very visible as more has to be taught. In 1900 an education to the age of 12 was sufficient for most of the population. Now it is 17 and upwards as a minimum start point. The resources required in terms of teachers and facilities become greater every year. Added to this is the need for retraining during the lifetime of almost every individual. It is no longer sufficient to get ones education at the start of life – it is becoming a continuous process.

Much of the retraining requirement is because of the introduction of new technology. It is part of the problem as well as part of the solution. Yet what is very clear is that the demand for education and training will continue to increase for the foreseeable future and, inevitably, beyond.

Education then is a fundamental growth area. It is normally seen by governments as a cost. I have indicated earlier that it should be seen as an investment. Even more it should be seen as an industry of its own. It is the foundation of almost all other modern

industries. In saying this I am not advocating that education should be in private hands. I believe in fact that most education, and especially any compulsory education, should be in government hands. On the other hand, as I have also indicated earlier, I believe that much training should be done within private industry.

We have seen, in New Zealand, the effects of trying to impose a market model on the education system. It has destroyed cooperation and rationalization between the components of the system. Whilst the different parts are owned and funded by government they compete wastefully and inefficiently in a way which no rational private owner would contemplate.

While large businesses run different subsidiaries as separate cost centers the only cases I am aware of where the same owner allows different subsidiaries to compete with one another is where there are other major players in the market place. In that case different policies can be implemented and the effects vis a vis the competition can be measured. The successful policies can then be adopted by all the subsidiaries. Thus, essentially, one has subsidiaries which ostensibly compete but which co-operate at a high level. They do not merely compete.

I mentioned in connection with Industrial Policy the planning that went into the Poly computer system. The level of cooperation between teachers from different schools and organizations was superb. They were all working for the greater good and were keen to share their work without thought of reward. Co-operation is the handmaiden of education. Such cooperation would be difficult or impossible to achieve under the "market model".

Everyone knows that it is much harder to write a book than it is to simply deliver lectures. The new technology requires even greater skills and dedication. In fact in most cases to achieve a good result a whole team of people may be required with different

skills and abilities – just look at the credits that follow every television program.

With the Poly system it was intended that individual schools would accept the burden of producing particular courses which would then be shared. In this way the whole of the curriculum could be covered with ready made material and individual teachers would then make their changes to it as they wished. We were of course going to sell this courseware overseas with the Poly machines.

I always contemplated that in the mathematics field, for example, a superb course would be produced (maybe as a commercial venture it would require an expenditure of \$500,000 to \$750,000) and that this would then be provided, with the hardware, to the schools (largely girls schools and rural schools) where there was a shortage of mathematics teachers.

Of course not everyone would be happy with this and I hasten to agree that a face to face teacher, skilled in both the subject and teaching, with a small class is a better solution. But even with such desirable situations there is a place for the technology. And the fact is that with increasing demand the better solution is unattainable for many communities.

THE REVOLUTION IN TEACHING

The explosion of demand for education and training is worldwide. We must now consider the place of the new technologies. And the way in which they will change the whole method of delivery of education and training in the future. There is already a great deal of experience to draw on.

In countries as diverse as China, Brazil and Britain teaching via television has been in use for decades. In China the “television universities” are well established. Here there are no face to face lectures. Instead several television screens are placed in

classrooms and the students take notes. Often the television material is uninspired and consists solely of a video of a lecture being given elsewhere. Where there are shortages of lecturers and books clearly this approach is vastly better than nothing. Class work is set and marked and in many cases tutoring is also provided.

At the opposite extreme are flight simulators where pilots are given not only the visual and instrumental responses to their actions but also the physical effects short of full crashes. A flight simulator costs of the order of \$10,000,000. Yet much of what is taught in a fully fledged flight simulator can be taught on a Personal Computer.

The military are some of the best trainers. They take a very different attitude from the educational institutions. In the military it is the recruit who does not understand their weapon who blows up the whole platoon. So the military take the view that if a course does not turn out personnel with the required skill then the course has failed. In educational institutions it is the pupil who is failed – not the teacher. In fact if one is interested in simply ranking pupils then it does not matter how badly the subject is taught the ranking order may not be changed. However the military are interested in “mastery learning” and increasingly use technology both for teaching and for testing. If someone is to learn how to fire a missile then, where the cost may be \$500,000 per shot, the benefits of simulation are clear.

Mastery learning is now becoming more common outside the military but it has taken many years and it is still confused by the desire to rank individuals in some sort of order.

Again, in industry, Computer Based Training (CBT) has come to have many adherents. It fits well with the concept of Mastery Learning. CBT can be “self paced learning” so called because it can be fitted in when the person has time. It does not require

removal of staff from their workplace to go into a classroom, perhaps in another town.

There was a time when it was thought that television would be able to substitute for teachers. The Chinese experience shows that there was some justification for this expectation. But watching television is even more soporific than having a live teacher. The teacher responds to the class and a good teacher can “feel” when their message is going across or can respond to a question. Television easily becomes “moving wallpaper” and is not absorbed. Experiments show that the average attention span is as little as one and a half minutes and little of a one hour show will be remembered.

Enter the “Interactive” techniques of Computer Based Training. Here a few screens of information may be presented but then the pupil has to do something other than hit the page turning button. There will be a question or a choice to be made. At the end of the lesson there may be a quiz. This may be administered in a “test” manner or in an “instructional” way where after one or two wrong answers the correct one is given. The whole gamut of “multimedia” presentation may be used with video clips, audio clips, text, animations, drawings and so on.

Many of these things – especially the interactive response to answers to questions make the new technology a much richer experience than using a book. That is, provided the authors have the requisite skills. They must not only know their subject but must understand and be able to use the technology in an educationally useful way. I have seen many wonderful uses of multimedia which have showcased the technology but which I have considered to be useless for the alleged teaching purpose. Really competent CBT is rarely produced by solitary individuals.

Even the best examples of the CBT technology are often improved by having an accompanying book. In fact why use the

technology when a book will do – or will even do it better. A book is likely to be the better option where there is only a requirement for text or when it will be required for reference. Books are familiar. They will always have a place just as the invention of aeroplanes did not remove the need for walking.

However, more than 20 years ago we were envisaging the electronic successor to the book. It could well be the same size and weight but with a screen with the clarity of the liquid crystal display of a watch, with solar cells on the spine so it stayed charged up and would remember your place for 10 years. Then with a few buttons for page turning etc the ebook would be complete. Potentially it could have another book loaded into the same device, either erasing the earlier one or building up a library depending on the available memory.

We are indeed coming close to this idea and improving on it. There are now notebook computers which weigh no more than a heavy hard back and have enough hard disk to store several hundred conventional books. Microsoft have released a “reader” which will find any word for you, which allows “browsing” (not as easy as flicking through a book but useful), which allows you to adjust the font for your reading convenience and with many other features. Barnes and Noble as well as other booksellers and publishers are offering books for download into your computer.

In some cases authors provide so called “hyperlinks” which allow you to divert to a full explanation of a term or a concept but which you do not have to wade through if you already understand the word or concept. Again there are applications where if you “hover” your mouse cursor over a word its dictionary definition will be displayed. This is marvelous where you are learning a new language or a new subject – and often half of the learning in a subject is the jargon that goes with it.

Again there are programs which will read out the text stored in the computer so that you can carry on with the housework or driving the car while still listening to your book.

The technology makes it easier to write a book of the old style. But expectations change. The extra features of word processors make it almost mandatory for authors to use some of them – thus margin notes, tips, cartoon characters and so on are expected in instructional material – thus putting the work load up again.

One can see the potential for increased work to make use of the features of the technology for teaching purposes by considering that one man wrote *The Lord of the Rings* but it is taking hundreds to make it into a film.

We are moving into yet another development of the technology. The World Wide Web is becoming ubiquitous and the bandwidth (which is the technical term for the capacity of the transmission system) in many places is getting to the stage where even full video can be transmitted over the Web. Short segments of video combined with text, questions and interactivity can be vastly better teaching materials than plain books. The effects on education will be huge.

It has never been practical for an educational institution to make all of its own books. Because good use of the technology in teaching requires so much more work than books it becomes even less practical for individual institutions to make all of their requirements of what I will call Technology Based Training, or TBT. So courses developed in one place, or a few places, may be used around the world. But this has been the case with books. What is the difference?

The difference is that the new materials will be so much better at communicating content to students that they will, in time, render

the “chalk and talk” method of teaching obsolete. Books were the first step in this direction but in many, if not most, cases the interactive teaching materials developed by highly skilled teams will surpass the efforts of solitary teachers. As the computer literate children age they will be likely to prefer to interact with a machine at their own pace rather than listen to a teacher.

What will not change however is the need for tutoring. Teachers will, I believe become more like coaches who advise, cajole, nurse and discipline their charges. One can have a person who would never themselves break athletic records nonetheless inspire and manage their protégés to achievements that the coach themselves could never contemplate. Similarly in my view teachers will lose much of their specialization. Instead of being a “maths teacher” or a “physics teacher” they will simply be “teachers”. They will look after the logistics of the course and assist with difficulties but will no longer deliver the content of the course. The quality of the course will then depend little on where it is delivered.

Qualification will come from machine delivered examinations. These are likely to present, say, twenty randomly chosen questions out of a bank of maybe 2,000 each time the student sits the examination. This is already the situation where one is seeking a Microsoft certification in the computer field.

As indicated above the courses once developed can be delivered over the Internet where sufficient bandwidth is available. Many organizations are moving to deliver their courses either on CDROM or over the Internet. For example, most computer software now comes with tutorials and documentation on the CDROM which carries the software. There is also often a Web site with additional material and/or email addresses for queries.

There has been uproar in the US where some universities are requiring their staff to convert their course material into TBT. The

staff feel that their value will diminish once this is accomplished. I believe that their value will change depending not only on their ability to create the courses but on their abilities as tutors and to continually upgrade courses so that the tutoring load diminishes.

The fear of the teachers is that they will find themselves redundant. “Develop your CDROM course and join the ranks of the unemployed”. No doubt this will happen to some teachers but overall there is so much to teach and the explosion of teaching requirement is so violent that I believe most have nothing to fear, especially if they move into the tutoring mode that I have indicated earlier.

There is much more to education than the course material. One of the values of a school or university is to mix with other students of different mind sets, backgrounds and disciplines as well as all the other things that depend on human interaction. These things will continue to give value to students coming together in institutional frameworks but many things will change.

We will see more “home teaching” especially at the school level and where several households collaborate. Older people who have already matured as social beings will not feel so much need to go to institutions. “Distance Learning “ will flourish. Much tutoring will be by email or via the students local machine under remote control by the tutor. (This is now well established – the remote person can take control of the local machine, use the mouse and keyboard remotely and have both screens showing the same thing while they talk about the problem.)

DIFFERENT DEVELOPMENTS

I think that there are several distinct and separate streams of development emerging. On the one hand there is what I might call “Global knowledge” such as mathematics, sciences and other factual subjects where what has to be learned is common around the world. There is also a great deal of “Proprietary

knowledge” such as how to use Microsoft’s Word or Access, how to maintain particular motor cars or Macdonald’s secrets of success in selling fast food. But there are also things which are particular to each nation and the things that bind it together – such as its own history, language and laws. Let me classify these as Local Knowledge.

So where does this leave education in a nation? I see two distinct issues. Firstly, how to acquire education and, secondly, how to deliver education. In other words what are the positions of the students and the teachers? Once more the subject subdivides into questions connected with delivering education and dealing with difficulties in applying it.

Increasingly the new technology will be used to deliver education. The development of this material will be in the hands of teachers and technology specialists not only in teaching institutions but in commercial organizations. So far as Global Knowledge is concerned there is in essence a “level playing field”. Even the multilingual aspects may be dealt with almost anywhere.

So any nation might house centers of excellence in developing this material. There are, in this field, the most impressive economies of scale that have ever existed. A course which captures the global market can be sold at a very low price and can effectively prevent competition even if the competition is significantly superior. I recall, in the lower level of Applied Mathematics, using prescribed textbooks which had been written over 50 years before. Even the best use of the new technology might not survive so long but the economies of scale in producing it are much greater than in producing books.

So the first competent multimedia course in any subject is likely to dominate its subject area for a long time whatever its medium

of delivery. And the cost of translating it into another language will be only a fraction of the cost of development.

Proprietary knowledge will be dealt with in the same way but, since it requires access to the developers of the knowledge it will almost certainly be produced wherever the proprietary product is produced. Increasingly it will become part of the product. A foretaste of this is provided by the provision of tutorials and help functions with computer software. Still supported by books in many cases – as supplied by the Microsoft Press for example.

We are likely then to find that “chalk and talk” will all but disappear in subjects covered by good multimedia courses. What will not disappear is the need for assistance with applying the knowledge gained from the course. To reiterate the point - with increasing amounts of knowledge more tutors are going to be required.

The place where a nation has a built-in advantage is in the third class of knowledge. The development of courses for this knowledge almost has to be based within the nation or cultural group. There may also be some demand for such courses, once developed, to be exported. E.g. tourists visiting Thailand may want some knowledge of the Thai language. There will be historical treatises, other works of literature and religion etc that will be of interest to other peoples.

So there are some subjects at least where any nation has a natural advantage in developing courses in the new technologies. But above everything else is the remaining and increasing need for tutoring. If this is developed using the remote access tools that are now available with the new technology then any nation can have a global market. In the same way as call centers are being established in some countries to service world wide enquiries so too will global tutoring develop.

There are still the fields noted earlier where the traditional institutions will be required and foreign students will want to attend them for all of the social and cultural reasons that have always applied. But just as with the local students they will increasingly want to acquire globally recognized qualifications.

So I have a clear picture that a nation's teaching institutions must increasingly rise above their national myopia to embrace international qualifications and become excellent in assisting their students to achieve these qualifications. They should embrace the new methods of teaching and aim to be centers of excellence in tutoring both in a face to face and remote fashion. If a New Zealand University is a nicer, cheaper and (because of the excellence of its tutoring) easier place to acquire a Harvard MBA than anywhere else then its future will be secure. Otherwise it (or at any rate the appropriate department) may be destined to disappear.

THE PUBLIC VERSUS PRIVATE DIMENSION OF EDUCATION

There is another difficult issue in education that must be dealt with. This is the question of financing education.

Many politicians talk of developing a "knowledge economy" without apparently any sense of how to achieve it.

In its attack of "market madness" towards the end of the twentieth century New Zealand endeavoured to make education a "market". Some new private institutions were established but for the most part the government owned educational establishments were made to function in a commercial manner with restricted funding from government. Some 25% of the cost of courses was to be borne by tertiary students. This was partly so government could reduce the top tax rates on individuals. The top earning individuals in many cases had got their education free under the

earlier regime but were not then to be required to pay for the education of their successors.

In order to allow students to survive under the new regime a system of student loans was introduced such that students could finance their way through tertiary studies and repay the loan after graduation. The obvious result was not anticipated by the originators of the scheme. Many students simply went overseas on graduation and did not repay their loan. Still others go overseas in order to get higher salaries so as to be able to repay their loan.

The argument that education is a “private good” rather than a “public good “ had been advanced to justify the advent of student loans. There is certainly no public good component if the student leaves the country on graduation. Conversely there is a public good if the student stays or returns after acquiring some overseas experience. Only then can we hope to have a knowledge economy. This truth has not been recognized. Nor has the obvious corollary that graduate students who stay or return to the country deserve to have their contribution to the public good recognized by having their loan written off by, perhaps, \$10,000 for each full year of residence after graduation.

The same issue has to be faced by many nations – producing graduates who immediately depart the nation without any return is a costly business.

CHAPTER 9. HEALTH

Health is generally recognized, in principle, as THE important thing for people yet in practice it is not given such a high priority.

Health is, to a large extent, a common good. By trying to make health a market driven matter the ideologues seem to have ignored this fact. One might more reasonably delude oneself that with adequate self financed security measures one can insulate oneself from the ravages of an increasing crime rate. But unless one is prepared to live one's life in a hermetically sealed bubble then another person's illness is likely to become one's own.

Apart from humanitarian considerations the common good is one of the self interest arguments that should apply to the eradication of poverty since so many reservoirs of illness reside in poverty. There are many studies showing that health and wealth are related. Spreading wealth would improve health.

There are competing claims for the improvement of health in many areas. Environmental considerations are growing ever more important. Some of these considerations are roading and car design improvements to reduce accidents; education to reduce the incidence of drug taking, smoking, boozing and eating fatty foods; also exercise, reduction of stress and numerous other issues.

Some prosperous and well intentioned multinationals do endeavour to look after the health of their staff but they do not attempt to extend their concern to the populace as a whole. Other multinationals blatantly do not care and they export their jobs to the countries with the least regulation requiring them to have any concern for their staff and the general populace. The health of the population is a major role of the nation's government whether

directly or indirectly by regulation of the population and the organizations within it.

I have indicated in an earlier chapter that health problems represent industrial and employment opportunities. Health should be regarded as an investment opportunity rather than just a cost by government. In New Zealand someone who remains healthy and in employment for a 40 year working life contributes perhaps \$500,000 in tax. On the other hand if they are unemployed due to sickness or because there is no job for them then they cost government a similar amount. How much is it worth spending to keep them healthy and employed? Also out of crime and out of jail? Spending on the fundamentals of life in a complex economy is not only a humanitarian matter but one of maintaining the tax base.

This argument might lead one to suppose that less should be spent on people as they get older because their future tax contribution diminishes. Yet it is the healthy elderly who provide so many of the voluntary services where commercial or government services are deficient or lacking. Their health needs increase but their demand for other community services such as education, transport and the like diminish. Unless they are to be disposed of with a “ permanent solution” it is much cheaper for the elderly to be maintained in good health than to care for them when they are sick or disabled.

There are so many problems in the health field that there is scope for each nation in the world to be a center of excellence in a particular field. The nation should choose one of the areas where it has a problem of its own and then seek to become a center of excellence in that field.

Again to turn to New Zealand. There is a current concern that many of our best and brightest are leaving the country permanently to obtain higher salaries elsewhere. There is also a

concern that the population is aging anyway as life expectancy increases.

The bureaucratic response has been to set as criteria for immigration a preference for young well qualified immigrants – others do not obtain entry under the points system. We also have a problem with highly skilled migrants who have been allowed entry because of their qualifications but are not then allowed to practice in their specialty because their foreign qualifications are not recognized here.

We allow people who show, sometimes falsely, that they are bringing a decent lump of money into the country with them to short circuit the other immigration restrictions as “business migrants”.

THE GOLDEN AGE INDUSTRY

I believe that we should take all of these component problems and make New Zealand a center of excellence for retirement and geriatric medicine. For those wealthy enough to purchase an annuity for their care for life and able to show that they will not be a burden on the state then migrants should be allowed entry to retire in New Zealand. The doctors and others who are already here or who might be allowed to migrate would then be a great asset because of their understanding of the foreign medical systems and approaches. Clearly they would still have to learn the New Zealand rules and procedures but they would become a great asset.

Many of these “retired” foreigners would also bring a great deal of experience, expertise and wisdom.

There is a great problem of aging populations in many countries. Therefore there is great scope for any nation that sets out to establish some solutions.

I also see many problems to be confronted such as “family reunification”. We have that problem now in a reverse way. We allow the young to enter on a points basis and then to bring in the old for “family reunification” . Our position might well be to automatically allow visitor permits but not residence or work permits unless the family member qualifies. In any case there are many elderly wealthy without family who may well wish to go to the “retirement country”. If, as I have said earlier, government were to give a focus, amend and clarify the rules then we might well have a thriving geriatric industry with all the surrounding services, research and support.

ORGANIZATION

There are many areas where health costs are linked to others but the normal arrangement of organizations does not reflect this. I recall many years ago trying to persuade the transport authorities to fund the development of elementary driving simulators. Our vision was to develop realistic driving instruction “games” on computers which would be available cheaply either for home use or in video parlours. We observed that people get a driving license without ever having driven at night or on ice etc. Instead of the thrill seeking games which are endemic we showed that we could teach the observation and practice of the road rules, what to do in a skid and so on. We had encouraging support from some of the staff. The project finally did not go ahead because they had no money in the budget for it and the savings from reduced accidents would come in the budget “health” not in the budget “transport”.

This issue of a fragmented approach to problems instead of a wholistic approach is a more general one than I want to discuss here. The solution is to reorganize government services to have what are known as “matrix” forms of organization instead of “hierarchical “ forms.

The problem itself is widespread. The cost of crime is generally measured by the costs of policing, trying and incarcerating criminals. The health costs, victim trauma, loss of production, costs of security measures and so on are not counted. They fall in different areas and with different budgets.

The problem is exacerbated by the introduction of “management by objectives” and incentive payments to executives for “performance” measured by “objective criteria”. These often cause the focus to be narrowed and therefore to widen the “cracks” for things to “fall down”. The private interest in getting bonuses may well outweigh the public interest.

The “modern management” fragmented budgets and market driven approaches have seen many obvious idiocies in the New Zealand health system – such as some of the state owned hospitals stopping operations for some months because others had put in “lower bids” for those operations. The winning hospitals were not then able to perform the increased number of operations that they had “won” and the staff and theatres of the “losing” hospitals were idle.

I am not here proposing any magic bullet for the health problems of any nation – merely emphasizing that it is one of the most important issues that nations have to deal with and that the very problems may well present a chance for innovative approaches to health and may bring great benefits as a focus for the nation as a whole. The health questions impact, both directly and indirectly, almost all facets of a nation’s well being. A wholistic approach is needed and different organization across the whole field of government spending needs to be considered.

The notion of matrix type organizations compared to the conventional heirarchical organizations is very relevant. Much is in fact done on a formal or informal basis at present with resources being provided by different government organizations

in order to deal with a problem. Thus police, education, social work and health resources may all be devoted to trying to control the effects of drug usage in teenagers.

But there is always difficulty because of the way that budgets are established. These do not usually provide for the resources of different organizations to be transferred between them. It may well be that those involved believe that some of the money spent on policing would be better spent on education or rehabilitation. But this is difficult to arrange if the budgets and “performance incentives” impose the usual straitjacket. The same issues arise again and again – health is related to housing, housing is related to poverty, diet comes into the picture and so on.

In principle the market ideal would cope with all this via “outsourcing” and “subcontracting” but in practice the same organizational budgeting problems have to be faced, and faced also with the burden of arranging contracts after appropriate bidding processes. This all requires a great deal of administration and implies that there are a number of possible suppliers who each have the capacity to perform. The unsuccessful ones then have their capacity wasted.

The field is too complicated for simplistic solutions but experience with a matrix type of organization leads me to believe that much can be done to improve results without increasing the resources. In brief one wants a focus on Health as well as on the supporting resources - Hospitals, Housing, Employment, Education and so on.

The distinguishing feature of matrix organizations is that, instead of being accountable to a fixed hierarchy of “bosses”, there is a different boss for a different purpose and a person who may have something to contribute to a number of different societal needs may find themselves with a responsibility to different people for making their contribution. When there is a family consultation

bringing together professionals from a number of different areas this is what is now done on an informal basis. I believe that much more could be done with the same resources if this type of organization structure were to be formalized. Thus one might have a “schizophrenic team”, a “tuberculosis team”, a “depression team”, a “vaccination team” and so on. Each team might draw on a variety of professionals. They would, as now, be organized for purposes of promotion, discipline and so on into their professional hierarchies but for operational purposes have to fill roles in several teams. It may well be the case that a person might be further up one team hierarchy and for this purpose would be the “boss” of someone who, in another team is their “boss”.

Some of the most successful high-tech companies have developed this type of organization structure with multi-disciplinary teams working on problems. This matrix type organization appears much better suited to many of our modern complexities than the older forms of organization - particularly as regards many of the health issues of a nation. It is done informally at present. Formal recognition of the fact might yield excellent results.

As with education a change in outlook to see the health field as an investment rather than a cost may bring the greatest benefit to a nation. This change will be fostered by the use of other indicators which measure the well being of a nation instead of merely its GDP.

CHAPTER 10. SOCIAL WELFARE AND THE CIVIL SOCIETY.

My wife and I returned to New Zealand in 1960 after four years overseas partly because, at that time, New Zealand had a society without great differences in apparent wealth. People were probably more equal in terms of dignity than almost anywhere else. We felt that this was desirable not only for its own sake but as a background for the raising of our children.

Slowly the economic tide turned against the country. Its terms of trade became less favourable. The rules to maintain the system and to try to prevent abuses became ever more numerous. The bureaucracy increased. Flexibility diminished. Changes that should have been made were not made. The Muldoon government tried to maintain the status quo by interfering more and more in the business life of the country. They could not hold back the changes.

By 1984 unemployment, unknown earlier, had reached the same general level as in other developed countries but even so the country was living beyond its means with a dangerous balance of payments deficit and collapsing exchange rate.

So, in 1984, there came a change of government. It was readily captured by the market ideologues and made revolutionary changes in one major area after another. Nothing was done gradually or in an exploratory way. The country had one hammer blow after another. The prevailing philosophy was to destroy what had gone before and then “the invisible hand” would build nirvana.

Indeed, much was accomplished. Some became wealthy beyond expectation and the disparity even in salaries came to surpass belief for many. Those at the top prospered. Those further down

suffered. The ones who benefited most cried out for more of the same – lower taxes, less government and less welfare. There were all kinds of casualties. Voluntary organizations were deprived of government support and withered away. The diseases of poverty began to reappear. Infrastructure of all sorts collapsed.

Eventually, in 1999, the electorate brought the “ New Zealand experiment” to an end by electing a government committed to again picking up the task of governing. The general problems bear a striking similarity to those of 1984. Unemployment is much the same, The balance of trade deficit is dangerous, the exchange rate is similar. One major difference is that the country’s major assets which, in 1984, had been state owned are now privately owned – mostly by overseas organizations.

What has been learned from all this? Apart from the fact that revolutions can occur through the ballot box just as much as through the gun one thing impresses me. This is that neither the market nor the cradle to grave welfare philosophies can, at their extremes, deliver what is required.

There is merit in the idea of allowing competition and market forces to allocate resources. But there is no such thing as a level playing field. If we look at the field of competitive sports we find that they are characterised by a battery of rules, by having a referee and by changing the direction of play on the field at the half way mark. We also find that there are systems of handicapping so that the unequal have a chance to end up in the winning positions.

There is also merit in the idea that social welfare can inhibit initiative, can lead to dependency and to misuse. But much of this can be explained by the way that the system has been operated. Where the rules for entitlement are complicated there is scope for the smart to find loopholes. Where there are apparent injustices

there is an incentive for bending the system to correct this. Most of all if there is a claw back of benefit as soon as the beneficiary earns some money. This creates the “poverty trap” which is an enormous hurdle from which few escape.

Much of my earlier writing in this book has focused on the positioning of the nation as a whole in the field of global commerce. It is concerned with ensuring that the inequities of the different environments beyond the borders are controlled so the fact that other nations choose to have different environmental laws and social regimes does not wipe out all industry within the nation’s borders. Within the borders of the nation however the idea of full competition with some sensible rules appears eminently correct. I have touched on some of the commercial law issues although not on the rules themselves. However, the Microsoft case in the USA indicates the sort of commercial environment that is to be desired – with full, hard, but fair competition.

A FLAT TAX FOR ALL

The next issue is how can everyone take part in this competitive world. If you are caught in the poverty trap then the question is academic. If you are unemployed you are unlikely to have or to be able to borrow the means to join the business world. You even have to assess whether by the time you have paid for the costs of going to work you can afford to do so. Work requires you to pay for travel, meals and the loss of the time which might allow you to save money by doing your own repairs, cooking your own meals etc

In the situation where there is to be broad based competition then there is an argument for a “flat tax”. Let us consider what we mean by a “flat tax”.

The top tax rate in New Zealand is 39 cents in the dollar. But this rate does not come into play until an income of \$60,000 per year

is reached. Below this figure the rates are less in various steps. The same tax for those on higher incomes would be arrived at by taking 39 cents on all dollars and giving back \$8808.80. The fact that these higher earners get the reduced rate on some of their earnings below \$60,000 means that they have a gift of \$8808.80 from the flat rate. The question (and I am indebted to Keith Rankin for putting it) is why doesn't everyone get this gift from the government? Why is it that only those on high incomes get the gift of a reduction from the top tax rate? Put in this way it can be seen to be manifestly unfair.

The idea that everyone should get this gift has various names. One of the more popular is "Universal Basic Income". Every citizen would then get an annual payment by installments of, say, \$8800. This would be tax free. There would have to be top-ups in some cases but, for the most part, all other welfare payments would disappear. Unemployment, retirement, sickness and other benefits would disappear. So would the huge bureaucracy that administers them. The minimum wage levels would be reduced accordingly as the UBI would be had as of right and any additional earning would belong to the worker with simply the flat tax deducted. All earnings would be taxed at the same "top" rate. With the reduced wages the competitive position of local manufacturers would be hugely improved. Competition for jobs and competition for sales would be unfettered but the basic "safety net" would be in place. Both sides of the welfare versus market debate would have their way.

This kind of change in a nation should be done in deliberate steps, after considerable thought and with the opportunity to learn about unexpected effects as the transition progressed. But there are many apparent advantages. At present perhaps as much as 5% of our nation's resources are devoted to the complicated collection of taxes, the administration of the welfare system, the compliance costs and costs of dealing with the bureaucracies for both businesses and individuals. These costs might be reduced

to 2% or 1%. Some people might choose not to work at times, to study, or to devote themselves to worthy causes. Those working in the voluntary sector would not be so disadvantaged compared to those in the commercial sector.

Even quite a small amount of money of ones own, as of right and with no need for scrutiny by another does wonders for ones dignity and self worth. Given this basic underpinning for all members of society there would be a safe basis for all people to compete or not to compete as they chose. The value of the work done by those who are not in paid employment would have some recognition. There would, hopefully, be a feeling that all were equal under the taxation system and one could rejoice in the fact that others were paying more tax instead of feeling envious that they were earning more.

Certainly one would expect that there would be more “networking” , more chance for cooperation as well as more competition and that we would truly have a “ civil society”.

CHAPTER 11. THE SURVIVAL OF NATIONS.

You will recall that, in chapter 2, I considered the analogy of the management of computer systems and from that consideration concluded that nations, though sick, should not be allowed to die because without them the world itself could not be managed. I have then addressed various issues which seem to me to be of relevance to the question of the survival of nations.

I have not always specifically related these issues to the ailments that afflict nations but it should be clear that much of the social turmoil from disaffected groups arises from unemployment, unequal distribution of wealth, inadequate health care, restricted education services, disassociation from decision making processes, disempowerment and the like. The biggest threats to any nation are probably because of disintegration from within. I have tried to deal with some of the factors that probably contribute to this threat if they are not addressed successfully. There are no magic bullets to solve all things overnight but much can be done.

In earlier chapters I have traversed just some of the areas that are important for a nations health, well being and even survival. There are questions such as decisions about the environment, defence, foreign policy, alliances and so forth that I have not touched on. These are huge and important questions but my concern here has been with those things which are necessary to preserve the integrity of a nation, to give it a coherence and perspective from which the larger issues can be considered with confidence.

Consider the alternatives. If a nation cannot manage its economy, collect its taxes, look after the welfare of its people and prevent the development of unbridgeable gaps in its society then it deserves to be replaced by some other form of organization.

But this may not happen. It may well be that organization simply collapses. There are a number of countries where anarchy prevails with ever changing balances of power between warring factions. They are ungoverned and ungovernable. They cannot be relied on to enter into environmental or other agreements and to keep to them. They cannot be relied on to engage the overarching problems that threaten mankind as a whole.

THE GLOBAL CORPORATIONS

A model preferred by some is for the global corporations to take over world-wide governance from the nations. There is much good that has been done by global corporations in the pursuit of what is good for them and their profits but it is completely unrealistic to expect that they should even be aware of many local concerns and conditions let alone to make decisions which take these things into account.

It must be recognized that amongst the global corporations are those of organized crime. As with individuals there are the good and the bad amongst the global corporations. The ultimate judgment of whether or not a corporation made decisions which were good or bad for humanity may well be an unwitting consequence of decisions made with the best of intentions.

Who really knows whether the organizations pushing for the growth and use of genetically engineered foods will be the saviours or the slayers of the human race? Emotions run high on each side of the argument but at least it is in the public arena and the decisions still involve the public in most countries. Will this always be so?

Naturally any organization which has made a well intentioned investment in developing something wants to get some reward for its work. They will do all that they can to advance their interest in

this respect. Even if they come to know that the development was a mistake the internal momentum of the organization and the career consequences will drive the project forward. All possible means will be explored to allow the project to continue regardless of the consequences.

Already the economic pressures that can be brought to bear on governments by the global giants are horrendous. This is true of the legitimate pressure concerning location of factories, development centers and the like. What is even more worrying is that there are many hidden pressures ranging from corruption and stand-over threats to the granting or withholding of contributions to party funds.

The problems of contributions to party funds in the age of mass media is one of enormous importance and complexity. The advice supposedly given to the Kennedy family was that the three most important considerations in a Presidential election were money, money and money.

It should not be beyond our collective wit to devise a way for the cost of elections to be borne by the populace at large via taxation rather than by contributions from the rich and powerful which, whatever the protestations to the contrary, obviously are made because the rich and powerful believe that it is money well spent in order to get laws bent or made to their advantage. David Korten's book, *When Corporations Rule the World*, traces the way in which this has happened historically. It may well be that without a fundamental change in the way in which our "democratic" elections are funded we will find that the notion of governments governing for the good of all of their citizens becomes a hollow mockery of the concept.

I believe that public funding of elections is essential for the long term survival of nations if they are to be in any sense self governing.

WORLD GOVERNMENT

The power of the corporations is well exemplified by the suggestion which has been advanced from time to time to the effect that global corporations should have seats on the United Nations. This would of course put more and more power in the hands of fewer and fewer individuals who already have too much power and wealth.

But the global issues are of such import that it is in the interests of nations that there be some collective bodies which are able to address these issues. Some world government is essential for the collective well being of nations. Only by this means can problems between nations or involving global corporations or global problems be resolved without violence and the enforcing of the will of the more powerful on the less powerful.

Many of the same questions which have been discussed earlier arise in considering what should be under the control of a world body and what should be left to the individual nations. These are similar to the questions which arise with any federation of states – what are the rules between nations as regards trade, finance, defence, policing, states rights, individual rights and so on. The question becomes more complicated where, as in Europe, nations give up some of their power to a federation. Should the federation then relinquish all or some of these powers to the world body?

The development of federations does not remove the need for a world body. There is no reason why it should not have the same powers as a federation and be able to override the federations. The world body should only exercise those powers to override under very restrictive conditions where a case can be made that the federation or national processes have been carried out improperly.

What is currently conspicuously missing from the United Nations functions in order for it to carry out the world government role is, amongst other things (such as the veto provisions), the ability to collect taxes and to enforce its decisions. These problems are well known and have been widely discussed for about fifty years to my knowledge. Some progress has been made but I believe that they become ever more urgent. Fundamental to the standing of any decision making body is the ability to fund itself and to carry out its decisions. In this context a “world police force” is essential.

The pace of technological change continues to increase. The knowledge about weapons of all sorts continues to accumulate and to become more widely available. Some of the science fiction scenarios for attempts at world dominance become more and more plausible without, necessarily, the happy endings.

ENDPOINT

The survival of nations as we have come to know them is not guaranteed. There are possibilities for collapse into anarchy or, at the other extreme, for the agglomeration of power to lead to worldwide dominance by a few individuals.

I have tried to set out some of the things which I believe will help to ensure the health and survival of nations. I am optimistic but not complacent. There is much to be done and we must proceed into the future with our senses very much on the alert. As Bertrand Russell said on his ninetieth birthday “act with vigour in spite of uncertainty.”

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