

Chapter 1

Government spending on social and environmental goals is inefficient

This chapter looks at the policies of the rich world's national governments. It will first look at some of humanity's problems, then argue that:

- Governments could be doing better
- Government policymaking is a crucial determinant of well-being
- Government policymaking is driven by things that have little to do with well-being

We could be doing better: the news is decidedly mixed

Humanity's problems are well known. After 43 years and \$568 billion (in 2003 dollars) in foreign aid to Africa, large numbers of children on that continent are still dying through want of cheap medicines and bed nets that could prevent half of all malaria deaths.¹

Neither has violent political conflict gone away: In the 1990s 3.6 million people, most of them civilians, were killed in conflict.² New kinds of war are being fought that are less disciplined and more spontaneous than the old. In these 'low-intensity' wars, occurring in recent times in Ivory Coast, Somalia, Sudan, Liberia, East Timor and the former Yugoslavia, the civilian proportion of the dead reaches 90 percent.³

Meanwhile the *potential* for catastrophe represented by the proliferation of weapons of mass destruction, especially nuclear, is increasing. The total world nuclear stockpile now consists of over 36 800 warheads. (In addition to deployed nuclear warheads, thousands more are held in reserve and are not counted in official declarations.⁴) Countries as poor as North Korea now have the capacity to threaten neighbouring countries with nuclear weapons. One expert estimates that, barring radical new anti-proliferation steps, the odds of a terrorist nuclear attack occurring in the ten years from 2004 are about even.⁵

Everywhere, the commons – publicly owned resources, the things that cannot be reduced to private property: the air, the water, the wandering animals, the public land, the wildlife, the fisheries – are being degraded, or disappearing altogether. A 2003/04 report on the state of the commons⁶ summarises the bad news:

- Our shared life support systems — the atmosphere and our fresh water supply in particular — are deteriorating
- Our cultural and scientific commons are being privatized
- Noise of all sorts is destroying the commons of quiet

Further suggestive evidence comes from the United Nation Environment Programme, which says that major threats to the planet such as climate change, the rate of extinction of species, and the challenge of feeding a growing population are among the many that remain

unresolved, and all of them put humanity at risk. It identified in its 2007 report, no major environmental issues for which the foreseeable trends are favourable.⁷ It reported:

- loss of fertile land through degradation
- unsustainable pressure on resources
- dwindling amount of fresh water available for humans and other creatures to share, and
- risk that environmental damage could pass unknown points of no return.

The world climate appears to be changing, perhaps too rapidly for many ecosystems to adapt. The consequences for much of the human population could be disastrous.

What is the commons?

Commons is the generic term. It embraces all the creations of nature and society that we inherit jointly and freely, and hold in trust for future generations.

Common assets are those parts of the commons that have a value in the market. Radio airwaves are a common asset, as are timber and minerals on public lands. So, increasingly, are air and water.

Common property refers to a class of human-made rights that lies somewhere between private property and state property. Examples include conservation easements held by land trusts, Alaskans' right to dividends from the Alaska Permanent Fund, and everyone's right to waterfront access.

Common wealth refers to the monetary and non-monetary value of the commons in supporting life and well-being. Like stockholders' equity in a corporation, it may increase or decrease from year to year depending on how well the commons is managed.⁸

Mainstream economists keep track of private income or wealth but seldom acknowledge the existence of the commons, nor do they often measure its degradation.⁹ It's either assumed to be trivial, or it's ignored just because it's difficult to define, let alone value. Economists don't necessarily assume the negative impacts on the commons from economic development are zero, but they appear to assume implicitly that they are less than or equal to the positive impacts. The negative impacts of economic growth include the degradation of the commons, and there is also a respectable case for arguing that the rich countries have exported some such impacts to the rest of the world. In the words of Professor Richard Norgaard: 'At least to some extent, the rich nations have developed at the expense of the poor and, in effect, there is a debt to the poor. That, perhaps, is one reason that they are poor.'¹⁰ It's worth acknowledging here that there are positive externalities of wealth generation beyond those that appear in company accounts and monetary measures of economic activity. These include the important benefits to society arising from employment: such as reduced poverty and crime - which themselves have important positive spin-offs for the commons. Just as almost all the negative externalities of economic development are ignored, so too are those positives that bypass the measured monetary flows.

But even within the rich countries there are serious social problems and pockets of poverty. Our populations suffer from crime and the fear of crime. Health services appear always to be in crisis and schools fail to educate many of our children to be functionally literate.¹¹ With a massive public sector, and after decades of ever-increasing taxation, the British Government today is still targeting the birth weight of babies in the country's most disadvantaged areas.¹² And for all that we live in the most prosperous societies ever, continuing economic growth doesn't seem to have made us much happier.¹³

Government policy is crucial

In the industrial countries, government spending is both high and rising. So much so that, for example, one in three households across Britain is now dependent on the state for at least half its income. More than seven million households are getting most of their income from government handouts.¹⁴

For the countries in the rich world total government expenditure as a proportion of Gross Domestic Product ranges from about 35 percent in the US and Australia, through 45 percent in the UK and Germany, to more than 50 percent in Italy, Denmark, France and Sweden.¹⁵ The role of government in some regions of the rich world exceeds that of Communist China or the former Soviet Union. In Wales, for example, the public sector accounts for 66 percent of the economy.¹⁶

Note that these are proportions of a GDP that has been rising. And it's worth pointing out that increases in government expenditure have occurred despite the rhetoric about 'rolling back the frontiers of state'. Political conservatives in the United States used to define themselves largely by their belief in less government. 'Many still view themselves that way, but the self-conception no longer has anything to do with reality. ...[F]or the 101 biggest programs that the Contract With America Republicans proposed to eliminate as unnecessary in 1995, spending has now risen 27 percent under a continuously Republican Congress.'¹⁷ While there may have been dips in government spending as a proportion of national income in some countries in recent years, in almost all of the rich countries it continues to grow in absolute terms.

Of course, government isn't the only body trying to achieve social and environmental goals. There are numerous private bodies: charities and non-governmental organizations, working to alleviate poverty and other depredations. But at least in terms of expenditure, they are dwarfed by government spending, which is only the most quantifiable measure of its influence: government intervenes in other ways that affect citizens' standard of living. Most obviously government creates laws and regulations including those affecting trade, sets monetary and fiscal policy, and favours or penalises certain institutions and activities. However, from the volume of its spending alone we can see that government's interventions are sufficiently important to merit scrutiny and that if government were significantly inefficient that would hurt its citizens' well-being.

Anecdotal evidence is not enough

Government spending is high so its efficiency has a bearing on whether it is worthwhile looking at alternatives, and in which direction we should look. We take 'efficiency' here to be

the efficiency of conversion of all the world's resources into net improvements in social and environmental outcomes.

Immediately we run into measurement difficulties. We know that national governments in the rich countries are big. We also see that there are large unsolved social and environmental problems at all levels – global, national and local – and that some of them appear to be worsening. We suspect government to be ineffective and inefficient and can certainly cite anecdotal evidence to that effect. And this is not just the feeling of economists, academics or journalists. I don't think many ordinary people would reply 'yes' to the question once posed by John Fund: 'Ask yourself: If you had a financial windfall and decided to tithe a portion of it in a way that would best help the less fortunate, would you even think about giving a check or donating time to the government?'¹⁸

All these facts and aspersions *suggest* inefficiency but are not in themselves sufficient evidence of a systemic problem that requires a radically new approach. Why not?

First, because resources are always limited so individual government agencies can always declare that they simply have insufficient funding to deal effectively with their responsibilities.

Second, because however efficient and well-resourced is any particular large government programme, there will always be a few individuals who fall through the cracks. This is a feature of human nature in all but the most regimented societies. Unless there are very many such outliers, we cannot definitively ascribe their condition to the inefficiency of government programmes designed to help them.

Third, because many of the functions for which we rely on government cannot be easily automated. As such they have escaped the dramatic gains in productivity per person that have characterised agriculture and manufacturing. Services that remain largely a responsibility of government, such as teaching, policing, health care, and provision of welfare are not especially technology-intensive, and have benefited far less from the productivity gains that we have seen in manufacturing and other, less human-intensive, services.¹⁹

A fourth reason to be cautious in condemning government is one of definition and measurement. Our discussion is about the efficiency of government overall. What constitutes the overall health or success of a society is difficult both to define and to quantify as, very often, is the government's contribution to it. The choice and range of indicators of societal well-being will always have an element of subjectivity about them, and it is unlikely that even the best possible and most efficient government programmes would see all such indicators moving in the right direction all the time.

To see this let us consider indicators that are unequivocally worse for sustained periods than they were at times of equal or lower government expenditure broadly directed at improving them. We could take, for instance, the rise, over decades, in the number of drug crimes, the atmospheric concentration of halocarbons, the loss of species biodiversity, or the incidence in developing countries of malaria, which appears to be rising.²⁰

In all cases, we should be seeing worsening indicators, while government expenditure on law and order, the environment and health over the same time has been climbing; in some cases very steeply. Could we conclude from these examples that government is inefficient?

Actually no. Take the example of malaria in a developing country. If the rate were found to have climbed, that would not itself be sufficient evidence that the government's health spending in that period were inefficient, even if that spending had risen markedly. Many variables other than inefficiency could explain a rising trend: there might have been a surge in the malaria parasite's resistance to insecticide, a rise in the population's predisposition to the disease, a reduction in non-governmental organizations' anti-malaria efforts, or changes in weather patterns that favoured the malarial mosquito. Some cities in Asia are so polluted that malarial mosquitoes cannot survive there. Cleaning up those cities might lead to increases in the malarial rate but still represent a net improvement in public health.

Perhaps we should be on firmer ground if we considered broader indicators. Take crime in Britain, where statistics are more readily available. In England and Wales the number of indictable offences per thousand population in 1900 was 2.4 and in 1997 the figure was 89.1.²¹ These are offences that are reported to the police and recorded by them. Over the same period the population has increased by 63 percent – far less than the increase in number of crimes. Taking homicides alone (which in England and Wales include murder, manslaughter, and infanticide) the number per million population *more than doubled* from the early 1960s to 1997.²²

Let us assume that the statistics are reliable and that crime has risen sharply in the past few decades. Poor government performance may have had little to do with this. Indeed, government may have performed superbly, given the many diverse factors that contribute to lawlessness. The worsening crime rate is not in itself sufficient to indict government – but even if it were, there is the question of how much weight we should attach to crime, compared to other areas in which similarly broad indicators show unequivocal improvements. For example: from 1901 to 1999 the life expectancy of new born children rose from 45 years for boys and 49 years for girls, to 75 years and 80 years respectively. Similar improvements can be seen for most of the measurable indicators of housing and education. In these areas, as in crime, government has undoubtedly played a large role.

The point is that a worsening of even quite broad indicators, even when government is spending increasing sums aimed at improving them, does not in itself *prove* poor government performance. There are simply too many other variables involved. Keep this in mind during the following discussion, which will cast aspersions on government and its policymaking machinery and rationale.

Indicators absent, vague or meaningless

Unfortunately, solid evidence about government performance even in a single policy area is hard to come by. The UK's National Health Service, which employs about 1.3 million,²³ is one of the western world's largest organizations.

The results reported by the Office of National Statistics on measuring productivity in the National Health Service do indeed demonstrate that a wide variety of estimates are possible depending on the inputs and outputs used and the assumptions made about

them. The reality is that, at present, there is no accepted measure of the value of total NHS output and comprehensive data to calculate one does not exist. From a letter to the Editor, *Economist*, 23 March 2006²⁴

This comment, written by a Director of the UK's Office for National Statistics, tells us that the NHS budget, now about £90 billion a year,²⁵ is spent without a clue as to how much of it is being wasted.

GDP, the de facto target, is inadequate or misleading

The more than minimal fraud is in measuring social progress all but exclusively by the volume of producer-influenced production, the increase in GDP.²⁶

How has it come to be that efficiency of government expenditure is unknown and given so little priority that it's unknowable? The answer could be that when government first became interested in improving social welfare, economic growth itself was a fairly reliable target. As gross domestic product expanded, so did the well-being of much of the population and so too did government revenues and transfers that could – and did – supply public goods and relieve poverty. Efficiency is much more problematic to measure than production of manufactured goods and it was such production that dominated GDP during the years that the government's role in improving social well-being expanded in the industrial countries. In short, GDP was measured accurately by production, and social welfare tended to rise in line with GDP.

Both those relationships have gone awry. Services, much more difficult to measure, now generate most of the GDP of the rich countries. And while, at low levels of income and wealth the correlation between such easily measured variables and well-being is quite high, at higher levels that relationship breaks down.²⁷ Amongst other failings, GDP does not take into account changes in the quality of the environment or the distribution of income; it ignores human capital (the education and skills that are embodied in the work force) and leisure time, and it ignores such social problems as crime and homelessness.

Unfortunately, old habits persist and in the absence or non-use of reliable indicators of efficiency and well-being, economic growth tends to be used not only as an indicator but also as a target, sometimes implicitly and occasionally explicitly, by national governments. The idea that 'growth no longer makes us happier', given our current dogma, is 'as bizarre an idea as proposing that gravity pushes apples skyward'.²⁸

There's nothing original about pointing out that GDP is not a perfect measure of human well-being, and perhaps few in government would *admit* to caring about GDP for its own sake. But politicians do use economic growth as an explicit justification for their policies, with GDP per capita, or rate of growth of GDP functioning as *de facto* targets for governments that have no large objective beyond staying in power. This doesn't stop politicians setting an array of micro-targets so narrow and meaningless that they have nothing to do with overall well-being and can anyway be easily manipulated.

There are attempts to design better alternatives: better in the sense that they do correlate with social and environmental well-being²⁹ but with a couple of exceptions³⁰ they are not yet explicit policy targets.

In summary, economic growth or GDP per capita as de facto indicators of social welfare, or as implicit or explicit targets, would be flawed even if they could be measured accurately. They don't correlate well any longer with wealthy societies' social and environmental well-being, and their failings as targets become more harmful as society grows bigger and non-monetary impacts become more significant.

Though many government projects and policies are routinely justified with either explicit forecasts or vague promises that they will lead to economic growth, there are other policy areas that have little directly to do with economic growth and in which decisions are taken on other grounds. What drives these policies?

What really drives policy

Primitive thought

What is particularly striking is how, at the highest level of national government, big decisions appear to be made on the basis of reactive, primal emotion. Rationality and the long-term interests of the people politicians are supposed to represent hardly figure at all.

...policies are often adopted on the basis of less careful analysis than their importance warrants, leaving wide room for mistakes and misperceptions. Forces of knowledge destruction are often stronger than those favoring knowledge creation. Hence states have an inherent tendency toward primitive thought, and the conduct of public affairs is often polluted by myth, misinformation, and flimsy analysis.³¹

In a small way, this author has experience of such pettiness in the New Zealand bureaucracy, where a decision to split one government department into two, with all the attendant human and financial costs, was made on no basis other than a personality clash between a minister and a director-general. Rather more significant are the dangers of this type of thinking when military conflict looms large. An article about Henry Kissinger's role in US foreign policy quotes him saying to US President George W Bush's speechwriter, about radical Islamic opponents: 'We need to humiliate them'. Comments like this abound in high politics. George W Bush himself cried 'bring 'em on' at an early point in the invasion of Iraq. These are not examples of high-level thinking.

In more normal times, cold calculations of costs and benefits do make an appearance. But not always in the interests of ordinary people.

The interests of the rich

Policy is only one claim on people's time. For most people, most of the time, it's not a particularly compelling one. Naturally then, those with the most to gain, and the most free time or the most ability to buy other people's time, are in the best position to influence it. Before influence, though, comes access, and access to top politicians is a scarce resource that commands a price. In Australia this price has been reached by auction:

Before the October election... a 45-minute walk with Attorney-General Philip Ruddock and "a quicker-paced jog" with Health Minister Tony Abbott each fetched bids of thousands of dollars.³²

In this case the sums raised by this practice didn't end up in the politicians' bank accounts. Rather they fill up the election war chests of the major political parties. This practice is neither illegal nor must it necessarily lead to biased or flawed policymaking. Nor need it necessarily exclude the views of those without such direct access. But it is suggestive, and only a particularly bald example of what must occur in most systems of government.

Also working in favour of the wealthy are the complexity of policy and the policymaking process, and the time and patience necessary to engage with it. *Death by a thousand cuts*³³ tells the story of the successful campaign to repeal inheritance (estate) tax in the US. It is a fascinating story, attempting to solve the mystery of how the 'repeal of a tax that applies only to the richest 2 percent of American families [became] a cause so popular and so powerful that it steamrolled all the opposition placed in its way?'³⁴ Part of the answer was the rechristening of the tax as the 'death tax', which implies that the tax was on the hard-working deceased, rather than those wanting to inherit wealth. The tax was also depicted as a form of discrimination. There were opponents of the repeal, who argued that the estate tax was a crucial part of the American conception of giving everyone a fair chance in life, but it was already too late. The authors draw a blunt lesson from this, 'In politics, when you're explaining, you're losing.'

In the resources they can devote to influencing policy, corporations are at least as influential as wealthy individuals. Even in the relatively clean democracy of Germany, 'top companies admitted that they have been topping up the salaries of hundreds of local and national politicians.'³⁵ Again, there's nothing illegal about this practice, but it is suggestive.

The returns from outright lobbying can be very worthwhile. According to a former US Republican Party activist the US timber industry:

spent \$8 million in campaign contributions to preserve a logging road subsidy worth \$458 million—the return on their investment was 5,725 percent. Glaxo Wellcome invested \$1.2 million in campaign contributions to get a 19-month patent extension on Zantac worth \$1 billion—their net return: 83,333 percent. The tobacco industry spent \$30 million for a tax break worth \$50 billion—the return on their investment: 167,000 percent. For a paltry \$5 million in campaign contributions, the broadcasting industry was able to secure free digital TV licenses, a giveaway of public property worth \$70 billion—that's an incredible 1,400,000 percent return on their investment.³⁶

The degree to which the interests of the wealthy are built into the current system can be disheartening. Even the best-intentioned political movers and shakers have to make compromises. An article published two years before the US Presidential Election of 2008 revealed that the Democratic Party contender, Senator Barack Obama had helped to veto an amendment that would have killed vast loan guarantees for power-plant operators to develop new energy projects. Taxpayers for Common Sense, and Citizens Against Government Waste had called these guarantees 'one of the worst provisions' in the massive 2005 Energy Bill. The article reveals that Illinois-based Exelon Corporation, the nation's leading nuclear power-plant operator, is Obama's fourth largest patron, having donated a total of \$74 350 to his campaigns.³⁷

Ideology

J Krishnamurti, an Indian philosopher, put it this way:

We are not concerned with feeding, clothing, and sheltering man but engrossed in a particular system which will guarantee food, clothing and shelter for all. The extreme left or the right are wrangling over a formula that will assure man security; so they are not concerned with man's happiness, but with which formula will guarantee him happiness.³⁸

There's something seductive and persuasive about ideology. The sheer volume of documented history and personal recollection, in all their richness and complexity, combined with the application of selective memory means that most of us can plausibly attribute all the bad things that happen to the beliefs, politicians, countries or cultures that we don't like, and all the good things to the successes of the ideology that we favour.

Sometimes we aren't even aware that we are acting ideologically. One person's cultural given is another person's imposed ideology. Swimming in the sea of our own assumptions, it's not always easy to identify them. But apply them to other cultures, and the effects can be tragic. Greater western-style sexual equality for women has combined in Africa with the social acceptability of simultaneous long-term sexual relationships for both male and female partners, and much of the AIDS tragedy in that continent is the unhappy outcome.³⁹ But a happy exception has been Uganda, where infection rates fell, largely because of an advertising campaign urging the population to 'Be Faithful'. Tragically, this message has not been applied to other countries: it has been ignored by ideologues of both the left, who favoured condom use, and the right, who favoured abstinence. A huge share of the current western effort is now devoted to supplying antiretrovirals (ARVs) to those in Africa with full-blown AIDS. Unfortunately this laudable effort diverts resources from more cost-effective ways of dealing with the epidemic. 'ARVs are now reaching only a tiny minority of those in need and it will never be feasible to treat everyone. The "Be Faithful" message was neglected because it was not of interest to the bureaucracy concerned with AIDS.'⁴⁰

This appears to be a particularly distressing case of well-meaning, hard-working people being hampered by their own ideology in their genuine efforts to alleviate a human disaster. Ideology remains an important, and inadequate, way of approaching the entire development cause. Western-style development is seen as offering a 'comprehensive final answer to all of society's problems, from poverty and illiteracy to violence and despotic rulers. It shares the common ideological characteristic of suggesting there is only one correct answer, and it

tolerates little dissent. It deduces this unique answer for everyone from a general theory that purports to apply to everyone, everywhere.⁴¹

This ideological impulse can be unstated, but no less devastating. The consequences are almost equally tragic when the curse of ideology is applied to the rich countries – which, despite much of the learned rhetoric, it still is. Writing about the Inuit in Canada, Jay Griffiths says:

School is not a synonym for education. You might, if you're lucky, get a bit of an education at school, but for Inuit children, the land was their education. White lawmakers forced Inuit children to go to school, insisting that their parents settle in communities.... One result is that people are dependent on store-bought food, and if they have no cash they go hungry. ... a stark physical example of the effects of not knowing the land. But the psychological effects are everywhere. Without knowledge, you cannot be out on the land. Without survival skills, you can barely set foot beyond the perimeter of the community. Young people are effectively imprisoned by this ignorance into the small and claustrophobic communities where they go stir-crazy.⁴²

Schoolchildren in England have also suffered at the hands of the ideologues controlling the English educational system. There, politicians 'have been so intent either to defend or to oppose selection by academic ability that they have failed to set up a system of rigorous and useful qualifications for those whose interests are not academic. Standards have suffered in the name of inclusion, and vocational training has been chaotic. Meanwhile the great divide between public and private education has remained as important as ever.'⁴³

Even if the policymakers are well intentioned, smart and hard working, they often lose sight of their original goal. They assume that they know best how to achieve their desired outcome. Eliminating selection was the supposed means by which one set of political ideologues would reach their goal of equal opportunity for all in the context of the English educational system. One outcome has been that grammar schools became fee-paying, and divisions widened. The ideologues didn't achieve their stated goal, but that was probably supplanted in their minds by the outcomes they did achieve: they strengthened their identity, reinforced their ideology, and bonded more closely with people who felt the same way. The losers of course have been the pupils suffering from their muddle-headed theory.

Government isn't content merely to raise and allocate funds for the (laudable) goal of educating children. It has a single, often astonishingly limited, vision as to what the form and substance of that education shall take. Naturally it's biased in favour of its own educational experience: steeped in the verbal, urban values, of the sort that can lead to careers in administration, lawmaking and politics. Before too long, government educational institutions are created and indeed, in the early days they are both necessary and successful. But soon they become big enough to be able to resist change. They develop their own caste of experts and ideologues. They refuse to take seriously people from outside their profession, and are strikingly resistant to challenge from the outside world.

It's the same in other fields: government views crime as something to be tackled by the police and justice system. Health is something for a Ministry of Health to deal with. Mental health is about psychiatrists, counselling and drugs. The policies are all neat and compartmentalized, just like the bureaucracies and the state of mind that generates them. The real world, though,

is too messy for that. Effective policies in all areas need to adapt to our rapidly expanding knowledge and rapidly changing circumstances. They should accept diverse approaches and allow successful approaches to continue and unsuccessful ones to be terminated. Genuine, well-meaning government employees would not be ideologically driven. They would acknowledge that while broad goals in education, crime, welfare or whatever are stable over time, *the most effective ways of achieving them are not.*

For all these reasons it is odd that commentators castigate politicians for not having a coherent ideology or not being true to their party's principles. Ideological rigidity is a curse. It does nothing to achieve outcomes that are of interest to ordinary people, as distinct from ideologues and party hacks. Ideology cannot cope with changing circumstances, nor with the multiplicity of variables, mostly non-quantifiable, that actually determine outcomes. If social well-being, rather than ideological consistency is the real goal, we need adaptive, diverse strategies, not top-down, one-size-fits-all belief systems; they've been tried and they have failed; they failed not because 'they were never fully adopted' but because ideology implies a static monoculture. Society is not like that.

People outside government recognise this:

The important thing in moral life is to do what is right, not to expound the principle which makes it so; and so often the principle eludes us, even when the rightness of the act is clear.⁴⁴

Or, to be blunt, as a memorable line from the movie *Southern Comfort* put it: 'Comes a time when you have to abandon principles and do what's right.'⁴⁵

Feeling, emotion and gesture

The rampant conflicts of the twentieth century have made people wary of ideology; at least of the self-aware, explicit, overtly destructive kind. But for those seeking some guiding principles for making policy there are few to be found in our complex societies, in which outcomes can be difficult to trace accurately to the people and events that generated them. Our extreme specialisation increases the distance between producers and consumers and the time lags between cause and effect. It widens the gap between policymakers and the citizens they represent. Big institutions, whether public or private sector, dominate, and it's difficult for ordinary people to identify with them. One result is that appearances, personalities, and emotional appeal assume a great importance in politics. Frank Furedi calls it 'therapeutic politics' which instead of being guided by principle, eschews substance on matters of policy, and 'attempts to establish a point of contact in the domain of the emotion with an otherwise estranged electorate.' Instead of standing up for what we believe to be the right thing to do, we uphold what we feel good about. This 'signifies the incorporation of emotionalism into the heart of political decision-making.'⁴⁶

Feeling good is less about achieving or aiming for policies of substance and more about appearance. 'Gesture politics' has taken on a bigger role. 'The essence of leadership' writes Christopher Caldwell, in *The Triumph of Gesture Politics* 'has changed into something that is less and less about significant undertakings and more and more about dramatic stunts.'⁴⁷ It's

easy to make promises and launch inquiries; much more costly to do anything about underlying problems. So we read reports like this:

The [British] Government has been forced to admit that three years after promising to rebuild 3,500 secondary schools not a single project has been completed.⁴⁸

When Gordon Brown was Chancellor of Exchequer (Minister of Finance) he launched no fewer than 21 papers on skills, eight transport reports and six consultations on planning since 1997.⁴⁹ He launched transport reviews at the rate of nearly one a year between and 2006. In 2000 Brown proposed scrapping older lorries with a £100 million investment fund. 'Asked about this recently, ministers said they did not fund any such schemes.' In 2003, Mr Brown claimed that everyone on Jobseekers' Allowance would be assessed with a mandatory skills test. But 'Ministers recently told the House: "There are no mandatory skills courses linked to Jobseeker's Allowance".'⁵⁰

This sort of thing is typical. Between policymaking and policy delivery there are manifold labyrinthine paths, obscured by the fog of committees, agencies, and the glossy outpourings of Public Relations professionals. The goal is not to deliver outcomes, but to remain in power, and for that, in what seems to be an era of mass, sub-clinical Attention Deficit Disorder, grandiose but vapid promises suffice. The gesture of unveiling new well-intentioned initiatives on the television news will do. Outcomes are a distant second to appearances.

It's a dangerous tactic. The Kyoto approach to climate change, for instance, is similar: high-sounding principles, top-level agreements, elegant trading mechanisms...and the likely outcome? A possible slight reduction in anthropogenic greenhouse gas emissions. The triumph of presentation over substance. It owes more to the need to be seen to be doing something, however devoid of value that something is. Government responses to random bombings, hijackings and other threats to our personal security are similarly - and predictably - expensive, incapable of adaptation, and ineffectual.⁵¹

Often the agenda is set by the concerns of the media, and these too often represent the needs of media companies, rather than those of an informed, rational, public. Commenting on the sheer volume of television that we watch (25 or 30 hours per week) and the difficulty we have in hearing subtle but critical messages against it, Bill McKibben says:

If God decided to deliver the Ten Commandments on the *Today* show, it's true he'd have an enormous audience. But the minute he was finished, or maybe after he'd gotten through six or seven, it would be time for a commercial and then a discussion with a pet psychiatrist about how to introduce your dog to your new baby.⁵²

Our politicians pander to this. Slow-moving stories without televisual appeal are ignored; campaigns that sound far-reaching and momentous are announced in response to headline news. They're usually ineffectual or destined to be forgotten as media attention moves onto something else.

'We mostly judge risks by their salience', writes John Kay. Salient risks are those that dominate the media and that everyone is talking about or that we have recently encountered. 'The risk of terrorist attack was not salient enough before September 11 2001 and too salient

after. But, as you stand in line at airport security, observe that you are more likely to be killed by an object from space than in an aircraft crash.’ If we were informed and rational, we’d look at the probability of an event happening, its consequences, and the costs of counteracting it rather than its visual and emotional impact. Mr Kay contrasts the political response to terrorism with that to malaria, which rarely makes the headlines but kills a million children every year. ‘Malaria, eliminated from Europe and North America in the last century, has never been salient. But it is largely preventable - sleeping nets treated with insecticide alone dramatically reduce its incidence, and the discovery of an effective vaccine is a wholly realistic prospect. World leaders emphasise issues that are salient to them and to their voters.’ This contrasts with, for instance, the Copenhagen Consensus⁵³ and rich individuals Bill Gates and Warren Buffett who have instead ‘asked the questions - how likely? how costly? how amenable to action? - and put disease control at the head of their list of global issues. That judgment demonstrates the power of philanthropy over politics, of individual over collective action, of decision over discussion.’⁵⁴

It’s natural, though still irrational, that in our own lives we respond to events that are ‘salient’, even if they are unlikely to occur or recur. We are fallible human beings, and it’s our nature to respond emotionally to salient events. But policymakers should do better. They fail us when they react irrationally, with taxpayer funds, to events that have assume a media profile out of all proportion to their real impact. As Patrick Buchanan wrote, ‘In the five years since 11 September 2001, 85,000 people have been murdered in the USA, but not one in a terror attack.’ But you’d never know that from the actions of our politicians.⁵⁵ The conflict between Israel and the Arab countries similarly accounts for a disproportionate share of media attention and hence the world’s scarce peace-making resources. That conflict has led to the deaths of fewer than 100 000 since 1921: a grievous total, to be sure, but about half of four years’ killings in only the Darfur region of Sudan.⁵⁶ If we were indifferent between war-induced deaths in either region, we’d focus a larger share of our scarce peace-making resources on Darfur and the rest of Sudan. Even if policymakers were genuinely so indifferent, the clamour arising from unequal media coverage means their resolve to do – or appear to do – the rational thing would quickly crumble.

If anything the irrationality and emotionalism in national and regional politics are set to increase. Research shows that much of today’s ‘in your face’ televised political debate leads audiences to react more emotionally and to accord opposing views less legitimacy.⁵⁷

Television is vastly influential in politics. TV corporations have their own imperatives, and these have everything to do with audience figures (and subscription and advertising revenue) and very little to do with fostering the mutual respect of opposing sides in political debates. Arguments are polarized, attitudes become extreme on all sides. Again, the complexity of today’s policymaking world is a factor: the difficulty of attributing effect to cause in social and environmental policy means that emotion is far easier to communicate and exploit than a rational examination of the facts.

A variant of gesture politics is celebrity politics. Some things are best done by government. Indeed there are some concerns that under our current political configuration, only government can address. Many of these are quite mundane: eradicating poverty, supplying public services like law and order, defence, clean water and sewerage. As such, they don’t do much to enhance one’s image in the intensely image-conscious media. So many national governments like to associate themselves glamour, even those that are ‘left wing’ and

supposedly helping the small guys. One example: film director Peter Jackson's blockbuster King Kong consumed at least \$25 million of New Zealand taxpayers' money from a government scheme to encourage big-budget movies.⁵⁸ Note that in this instance big is beautiful: the New Zealand Government's offered a rebate of 12.5 percent of costs incurred in New Zealand. But that was *available only to movies with a budget of more than \$50 million*, or to movies that cost between \$15 million and \$50 million if 70 percent of their budget is spent in New Zealand.⁵⁹ If the ruling New Zealand Labour Party had stood on a manifesto of subsidising the rich it would be less objectionable. But you will not find this principle anywhere stated on its website.⁶⁰ Bill Clinton's campaign advisor once said 'politics is show business for ugly people.' Ingratiating themselves with beautiful people is perhaps one solution to politicians' self-esteem problem. It may not be deception, but it does seem like distraction.

There is certainly a reluctance to present us with clear choices in politics. Choices create winners and losers, and the debased language of politics finds it difficult to admit that policies will make some people worse off. The notion of trade-offs – which is really what policymaking is all about - is almost absent from political debate. Instead we get vapid, vacuous platitudes that widen the distance between politicians and the people they are supposed to represent. Before the 2005 UK General Election you could hear the UK's ruling Labour party's election campaign coordinator declare that 'the priority must be to fashion an active citizenship'. Or one of its ministers attempting to kick start its election campaign by promising a new era of 'individual empowerment' in New Labour's third term.⁶¹ Every policy statement is scripted, having first been tested on a focus group and fine-tuned by the public relations industry. Politics becomes a battle between Public Relations professionals. What purchase can ordinary people have on such nebulosity?

Meaningless numerical targets

Outgrowths of gesture politics are the meaningless numerical targets that sound worthy, but turn out to have little to do with improving societal well-being. One of the current UK Government's policy objectives, for example, is putting 50 percent of Britain's under-30s into higher education. Like many such targets it sounds worthwhile at first. One might pause for thought though, and ask why 50 percent? Wouldn't 66 percent be better? Or 75 percent? Even the 50 percent target means, in effect, helping non-academic types go on university courses to which they are unsuited and which do very little for their career chances. Neither has past expansion of tertiary education done a great deal to benefit the disadvantaged. It makes employers unnecessarily demanding of job applicants. 'In every developed country, expanding higher education has done less for equal opportunity than one might expect — whilst steering large subsidies towards the middle classes.'⁶² Worst of all, perhaps, more funding for higher education means less for literacy and numeracy programmes. There is, of course, nothing wrong with people doing whatever courses they want. But it is highly questionable whether people should be subsidised to do so from a finite educational budget when, for example, 'Some 7 million adults in England - one in five adults - if given the alphabetical index to the Yellow Pages, cannot locate the page reference for plumbers', and 'one in three adults in [England] cannot calculate the area of a room that is 21 by 14 feet, even with the aid of a calculator'.⁶³

Often a government's targets show a bias toward more government intervention, when a sector is almost crying out for less of it. So the British farming minister announced in July

2002, an 'action plan', including subsidies, to boost the role of organic farming, and the incoming German Agriculture Minister announced in her maiden speech plans to increase the share of organic farming in German agriculture from 2.5 to 20 percent over ten years.⁶⁴ As with much of the rest of agricultural policy in the rich countries these intentions will almost certainly take the form of significant transfers of resources from the poor who spend more of their income on food, to rich farmers and middle-class consumers. Why not reduce the billions of dollars that subsidise overproduction and intensify the pressure on the environment and on food safety? Again, there is nothing actually wrong with organic agriculture, though many of the claims made on its behalf do seem to be overstated.⁶⁵ But there is surely something unworthy of a government that seeks to impose arbitrary numerical targets for unstated or nebulous reasons that have nothing to do with improvements in social welfare.

The Accident and Emergency (A&E) departments in English hospitals have to ensure that 98 percent of patients transferred or discharged within four hours. If they fail, they are subject to financial penalties. One result is that, since these targets were imposed, more patients are transferred to hospital wards 'just in case'. This is costly in resource terms, but it benefits hospitals who receive as much as £1000 per admission, compared with about £100 for a patient treated in A&E. Admitting more patients is greatly in the financial interests of hospitals: it's called 'gaming the system'.⁶⁶

Other examples are the recycling targets, adopted with enthusiasm, at least at first, by many countries and local authorities. In many cases recycling is helpful to the environment; but there are instances when it probably is not. One life cycle analysis estimated that the manufacture of paper cups consumed 36 times as much electricity and more than 500 times as much wastewater as the manufacture of much-derided polystyrene foam cups.⁶⁷ Another life cycle assessment analysis, commissioned by the British government, showed that disposable nappies have no greater impact on the environment than cloth nappies.⁶⁸ Perhaps that's why recycling in many areas has become a sort of pageant, so that concerned households assiduously sort their rubbish into colour-coded bin bags only to find out later that all the bags are thrown onto the same landfill once they are safely out of view.⁶⁹

Control: an end in itself?

As ordinary people, we may find the motivations of the decision-makers obscure. Why, for example, did the European Union decide to double the amount of taxpayers' money it will give in aid to poor countries by 2015, when it could have done so much more by dismantling its import barriers?⁷⁰ According to Oxfam, import tariffs alone cost developing countries around \$43 billion a year. These tariffs are actually the least significant weapon in the protectionist arsenals of rich countries. The total costs of all forms of trade barriers – including tariffs, non-tariff barriers, antidumping measures, and product standards – are more than double this amount, rising to over \$100bn.⁷¹ It does appear that the EU mandarins are more comfortable giving other people's money as charity than allowing poor countries to prosper through trade. Perhaps the real motivation is not to help people in the poor countries, but a wish to retain and, if possible, expand bureaucratic control over the lives of EU and non-EU citizens alike? We shall look more at the rich countries' agricultural support mechanisms below, but note that, as Oxfam says, the actual costs of the trade barriers to agriculture, textiles and clothing understate the real impact on the poor. 'They do not capture the costs of protectionism in terms of reduced opportunities for employment, reduced income for essential goods such as food and health care, or the long-term economic losses associated

with restricted opportunities for investment. Nor do they capture the disproportionate impact on very poor households. Because Northern governments impose the most punitive import restrictions on goods produced by the poor, they systematically diminish the potential for trade to act as a catalyst for poverty reduction.⁷²

So could control be one of government's unstated objectives – one that it is unaware of itself? That would be consistent with some of its responses to terrorist threats. The Harvard School of Public Health looked at studies of the new procedures being implemented in the US.⁷³ It couldn't find any that showed whether the laborious, time-consuming and intrusive of X-raying carry-on luggage prevents hijackings or attacks. Neither was there any evidence that making passengers take off their shoes and confiscating small items prevented any incidents. The US Transportation Security Administration defended its measures by reporting that more than 13 million prohibited items were intercepted in one year. Most of these illegal items were cigarette-lighters. But the stated goal of these procedures is not to hit targets for the number of items confiscated. It's to reduce the terrorism threat to airline passengers. There's no evidence that, despite the expense and inconvenience of all these procedures, they are of any value at all. Evidence is similarly lacking that the Bush administration's 'aggressive interrogation techniques' and other suspensions of civil liberties have thwarted a single terrorist attack.⁷⁴

The unimportance of outcomes

Emotion, reaction, ideology, feelings, media appeal, and control: it looks as though, in the absence of anything more coherent this array of motley motivations largely determines the spending of the largest and wealthiest organizations in human history: the national governments of the world's richest countries. What is particularly striking is how little socially beneficial outcomes themselves drive policy. A theme of this book will be the need to target such outcomes explicitly and transparently.

Yet might not all this be unrealistic? It's a trivial task to point out that the rich countries could be better run. In any human society it's always going to be possible to point to problems and inefficiencies. Some of these are quite serious, but to suggest, as I have done, that the reasons for these problems have to do with superficially unsatisfactory policy drivers is not evidence in itself of systemic failure at the national level of government. Anecdotal evidence is not enough and the above, while suggestive, is not conclusive.

The smoking gun: perverse subsidies

So what might constitute conclusive evidence that governments are inefficient? To this author, the answer is clear: perverse subsidies and their persistence over many years. First: what is a subsidy? For our purposes it can be defined as any measure that keeps consumer prices below market level or producer prices above market level, or that reduces costs for consumers and producers through direct or indirect support. A subsidy need not be a straight budgetary handout. It could take the form of a zero or low tax rate, or the provision of goods, services or finance below cost. Subsidies can also be given via barriers to imports of competing goods or services, which keep producer prices high.⁷⁵

What then is a perverse subsidy? I will use the term to describe subsidies that economically inefficient *and* environmentally destructive.⁷⁶ In most cases they are also socially inequitable. They include policies that subsidise environmentally-intensive sectors or sub-sectors such energy, mining, fishing, forestry, transport, construction and intensive farming and agribusiness. They are not trivial: they amount to hundreds of billions of dollars a year.

Agricultural subsidies

Most agricultural subsidies are perverse. Support to producers in the developed countries as measured by the Organisation for Economic Cooperation and Development (OECD) totalled \$268 billion in the year 2006.⁷⁷ Most assistance continues to be given in the form of market price support and output payments. These forms of support insulate farmers from world markets and impose a burden on domestic consumers. And the higher food prices that result from these policies bear most heavily on low-income consumers, for whom food constitutes a larger share of total household expenditure.

Farmers as a whole receive few of the benefits from government support to agriculture. OECD research shows that more than half of sums paid out to 'agriculture' end up as extra expenditure on farm inputs, such as fertilisers, pesticides, animal feedstuffs, machinery and farm buildings.⁷⁸ Farmers, because they are subsidised, buy more of these inputs, and the suppliers, knowing that farmers can afford to pay more, charge higher prices for them. Soil tests and veterinary fees, for example, typically cost about half the price in unsubsidised New Zealand as they do in Europe. So too do identically packed agricultural chemicals.⁷⁹ There are also very high administrative costs, as farmers have to comply with a whole host of stipulations to qualify for their assistance, and the masses of forms they fill in have to be duly scrutinised, filed, archived or otherwise disposed of.

Nevertheless, about 20-25 percent of taxpayer and consumer support to 'agriculture' in the OECD countries does end up going to farmers. But because much assistance to the sector takes the form of subsidised prices for their production, most of it goes to the farmers who produce most, and who you might think need support least. In the US, for instance, about 88 percent of support was found to go to the largest (in terms of gross sales) 25 percent of the farmers.⁸⁰ So the proportion of the billions of dollars for OECD agriculture that does end up with the smallest farmers is tiny: around three or five percent. And many of these farmers are part-timers, who do not depend solely on agriculture for their income - in the US and Japan farming accounts for around one-sixth of the average farm's household income.⁸¹

Surprisingly, many of the farmers who were supposed to benefit, have also suffered from high support levels. Because most support is based on output, which increases with the area of a farm, the additional income due to the support is largely capitalised into the least elastically supplied farming input, which is farmland. So those who were lucky enough to own land when these policies were first implemented, decades ago, benefited from a one-time windfall gain. But those who were unfortunate enough to miss out, and especially those who have to borrow to fund their farming ambitions, have suffered. Quantitative research on this effect is scanty, but one estimate is that a one percent increase in support prices in the UK leads to a 10 percent increase in the land price. For Canada, it was estimated that the abolition of direct government transfer payments would reduce total farm cash receipts by 13 percent and lead to a land price fall 18.5 percent in the long run.⁸² High land values have meant that entry to the

farming profession has been restricted to the wealthy, corporations or to the sons and daughters of farmers.

There is a danger here of thinking that people in OECD countries have been the only victims of agricultural support policies. Perhaps these policies are really intended to help people in other countries? No, they're not: they work by keeping out cheaper food from farmers in the food-rich developing countries who suffer by being excluded from the world's biggest food consuming markets. They also suffer because the rich countries' subsidised overproduction has reduced the value of their output on world markets and their import barriers have increased the volatility of world prices. Many would-be exporting countries in the developing world are desperately poor. The rich countries' agricultural support policies hit them where it hurts - it makes development from their agricultural base that much more difficult. Oxfam estimated in 2001 that the industrialised countries' agricultural policies (including tariffs and subsidies), cause annual welfare losses of \$20bn for developing countries, or 40 percent of the value of aid flows.⁸³ Agriculture, along with textiles and clothing, has been the traditional route for development of almost all the world economies, and it is precisely imports of these products that the rich countries do most to restrict.

But consumers and taxpayers aren't the only victims. Farm subsidies have encouraged the extermination of wildlife throughout the developed countries. Market price support is still the main means by which these countries support their farmers and it does so in ways that encourage increased production per unit area. This encourages specialisation of production which imposes a bigger environmental burden on the land. It means the expansion of production onto marginal and environmentally valuable areas such as woodlands, ponds and hedgerows. It also puts pressure on animal welfare and food safety. Both have deteriorated, as market price support encourages ever larger units, and ever more intensive production systems.

That's not all. Michael Pollan explains the disastrous effects that farm subsidies in the US are having on that country's health. How is it, he asks, that 'today the people with the least amount of money to spend on food are the ones most likely to be overweight?'⁸⁴ The answer lies in the cost of various foods. '[T]he rules of the food game in America are organized in such a way that if you are eating on a budget, the most rational economic strategy is to eat badly — and get fat.' This is not the result of the free market. 'Compared with a bunch of carrots, a package of Twinkies, to take one iconic processed foodlike substance as an example, is a highly complicated, high-tech piece of manufacture, involving no fewer than 39 ingredients, many themselves elaborately manufactured, as well as the packaging and a hefty marketing budget. So how can the supermarket possibly sell a pair of these synthetic cream-filled pseudocakes for less than a bunch of roots?' It's US agriculture support policies that set the rules not only in the US, but to a considerable extent, for the entire world's food trading system. They determine:

...which crops will be subsidized and which will not, and in the case of the carrot and the Twinkie, the farm bill as currently written offers a lot more support to the cake than to the root. The result? A food system awash in added sugars (derived from corn) and added fats (derived mainly from soy), as well as dirt-cheap meat and milk (derived from both). By comparison, the farm bill does almost nothing to support farmers growing fresh produce. A result of these policy choices is on stark display in your supermarket, where the real price of fruits and vegetables between 1985 and 2000 increased by nearly 40 percent while the real price of soft drinks (aka liquid corn) declined by 23 percent.

The reason the least healthful calories in the supermarket are the cheapest is that those are the ones the farm bill encourages farmers to grow.⁷

But surely, a devil's advocate might say, agricultural policies subsidise production and so make food cheaper than it would otherwise be? Not so: imports are deliberately restricted to help keep producer prices high. They also raise food prices for consumers: research commissioned by Open Europe estimates that ditching the Common Agricultural Policy (and other EU import barriers) would be worth £1500 a year to the typical UK household of four.⁸⁵

So who are the big winners, then, from the complex array of agricultural support policies in the developed countries? Well, Prince Albert II of Monaco (whose fortune is estimated at 2 billion euros (£1.4 billion), receives €390 000 a year in subsidies from the CAP, as do the 29 more of France's biggest farmers. That is 217 times the average received by the 180 000 or so smallest farms, which make up 40 percent of the country's total. Over a quarter of payments to French farmers go to just 5 percent of farmers.⁸⁶ High food prices, as Oxfam found, mean that wealthy landowners like the Dukes of Westminster, Marlborough and Bedford, Lords Illife and de Ramsey and the Earl of Leicester can *each* receive subsidies from the public of up to £370 000 a year for growing their cereal crops.⁸⁷

So the real beneficiaries are a fairly limited circle: large farmers, many of whom were already very wealthy by any standards, agricultural chemical manufacturers and processor, bureaucrats and, to an unknown degree, fraudsters. It's unlikely that rational consumers and taxpayers, if they were given the chance to vote on whether they wanted to support these people, would do so with much enthusiasm.

Thankfully, after years of pressure on budgets, and partly because of rising commodity prices, the trends are mostly downwards. Total support to agriculture in the OECD is now about 1.1 percent of GDP; a big fall from the 1986-88 average of 2.5 percent. Note though that, as a proportion of agricultural output, subsidies paid to European Union agriculture have hardly changed over fifteen years to 2005. The subsidy has fluctuated between 30-40 percent of total output depending on world prices. And even after the 2003 reform of the EU's Common Agricultural Policy, market price support (one of the most distortionary elements of the CAP) will remain the dominant form of CAP spending, decreasing only slightly from 58 percent to 53 percent of the total CAP spend. So the overall reduction in distortion will be slight. In Japan and the Republic of Korea government is reducing the role it plays in setting agricultural product prices. But what about the US? Harper's Magazine in late 2006 reported that the minimum amount of US Department of Agriculture farm subsidies since 2000 paid out to people *who do not farm* amounted to \$1.3 billion.⁸⁸ And the terms of the 2007 Farm Bill, which over five years will disburse \$307 billion, ensure that most of this largesse will go to commercial farm households, whose average income is \$230 000.⁸⁹

The case against the rich world's agricultural policies is damning and overwhelming, but they *have been around for several decades*. There has been some recent tinkering with them but essentially they are unchanged. Our politicians cannot summon the will to challenge the entrenched interests they represent. Nor is the estimated \$268 billion they are currently costing a trivial sum. It's worth digressing for a moment to compare this total that the rich world gives to its own farmers with the financial assistance it gives to agriculture in developing countries, which amounts to around \$10 billion per year.⁹⁰ In fact total aid,

following a cut in their official aid budget, given by the wealthy countries that are members of the OECD's Development Assistance Committee amounted to just \$104 billion in 2006.⁹¹

And yet, it continues. Look at the biofuel (energy sources made from plant material) industry which, 'has long been dominated not by market forces but by politics and the interests of a few large companies',⁹² in large part Archer Daniels Midland, the major ethanol producer. Ethanol production in the US is feasible only because of large government subsidies and punitive tariffs that exclude the much cheaper and more efficient sugar-based ethanol from Brazil. In March 2007, during President Bush's trip to Latin America:

[T]he one heralded achievement was a deal with Brazil on joint production of ethanol. But Bush, while spouting free-trade rhetoric for others in the conventional manner, emphasized forcefully that the high tariff to protect US producers would remain, of course along with the many forms of government subsidy for the industry.⁹³

And what about the environmental effects of pushing biofuels? In March 2007 EU leaders agreed as a climate change mitigation measure to set a binding target that will make biofuel - account for 10 percent of all the EU's transport fuels by 2020. But the European Commission has admitted that this objective may have the unintended consequence of speeding up the destruction of tropical rainforests and peatlands in South-East Asia - which would actually accelerate climate change.⁹⁴

It's the self-entrenching and self-reinforcing nature of such distortions that is most problematic. The insight that won the Nobel Prize for Ronald Coase says that who actually owns property rights doesn't really matter, from the efficiency point of view. This may well be true in the long run, but the wrong choices can determine political and social development for a very long time.⁹⁵ Subsidies for agriculture, in all their guises, have gone on for several decades already. They are probably seen by their beneficiaries as a property right. They not only impede any movement toward a rational farm policy; they also empower those opposed to any meaningful reform.

It is the persistence of farm policy, despite the weight of the accumulated evidence that they are without a single positive feature, that makes it seem unlikely that our political system can ever convincingly meet the challenges we face at national and global levels that demand coherent, urgent and radical action.

Perverse subsidies to other sectors

Agriculture is perhaps the most documented example of a sector beholden to perverse subsidies. But there are others.

Fisheries

In November 2006 the United Nations General Assembly discussed banning high-seas bottom trawling, which scrapes the sea-floor bare, devastating deep-sea corals and sponge beds that have taken centuries or millennia to grow. The villains in this particular policy area include Japan, Russia, South Korea, and Spain. This disastrous strip mining of the high seas for fish is not only continuing: it is being subsidised. The Fisheries Economics Research Unit⁹⁶ at the University of British Columbia's Fisheries Centre estimates that bottom trawl fleets operating

in the high seas receive an average of \$152 million per year, which constitutes around 15 percent of the total landed value of the fleet.⁹⁷ These catches are unregulated and ‘utterly unsustainable. With globalised markets, the economic drivers of over-fishing are physically removed and so fishermen have no stake in the natural systems they affect. While it may be a good short-term business practice to fish out stocks and move on, we now see global declines of targeted species.’⁹⁸

This practice, environmentally disastrous as it is, is profitable only because of subsidies; half of which are fuel subsidies.

Fossil fuels

For every \$1 going into solar power or wind power, there are \$15 of government subsidy going into fossil fuels, which is crazy. Norman Myers⁹⁹

In the mid 1990s it was estimated that subsidies for energy in OECD countries were running at between \$70 billion and \$80 billion; their main purpose being to support energy production. Coal is most heavily subsidised, followed by nuclear energy and oil.¹⁰⁰ In the same period, in 20 of the largest developing countries, the World Bank estimated in 1997 that annual fossil-fuel subsidies amounted to \$48 billion.¹⁰¹ More recently the Global Subsidies Initiative reported on subsidies to coal mining in the European Union, where aid helps producers cover operating losses. Germany, Spain, Bulgaria, and Romania all give assistance to their coal mining industries.¹⁰² Smaller in scale, but not insignificant are the loopholes in the US, expanded by the Bush administration, which allow the value of gas collected from public lands and coastal areas to be undervalued. The shortfall is estimated at a minimum of \$700 million.¹⁰³ Between 2000 and 2007, the UK government gave coal firms £220 million to help them open new mines or to keep existing mines working.¹⁰⁴ The UK government’s current policy is to ‘maximise economic recovery ... from remaining coal reserves.’¹⁰⁵

Add in taxpayer-financed road construction and the non-pricing of the negative environmental impacts of fossil fuel consumption, and it’s clear that fossil fuel use is heavily subsidised. Echoing Norman Myers’ words, Anatole Kaletsky writes:

Global subsidies for energy research are now running at a pitiful \$10 billion annually, compared with the \$250 billion spent on subsidising the extraction of fossil fuels (mainly on the most polluting of all energy sources, coal).¹⁰⁶

It’s easy to see a chaotic level of policy incoherence here: on the one hand governments throughout Europe are saying we must reduce the demand for fossil fuels if climate change is to be averted. They encourage us to change our lightbulbs, insulate our lofts, and turn off our television sets at the wall. But they make no effort to reduce the supply of fossil fuels. On the contrary: they are subsidising its extraction and use.¹⁰⁷

Road transport

Also benefiting from lavish perverse subsidies in the rich countries is road transport. Subsidies to private road transport include the hidden costs of providing road users with roads, space and complementary traffic services such as highway patrols, traffic management, and paramedics.

A report released in 2007 by the European Environmental Agency estimates that road transport in the EU-15 countries receives an estimated €110 billion in annual subsidies for infrastructure alone. (With another €7 billion in 'other budgetary transfers, a further €9 billion in tax exemptions and rebates). These are the *known* subsidies; their effect is to reduce the costs of road transport to users.¹⁰⁸

For the years 1991 and 1989, two different studies estimated the net subsidies to road transport in the US at \$55 billion and \$174 billion, respectively, or 1 and 3 percent respectively of that country's GDP.¹⁰⁹ The wide range reflects the different estimates for parking subsidies and for providing complementary traffic services. The gap is large, but the main point is that 'American motorists either pay a fifth of the actual costs of their travel or they pay half. Or somewhere in between. Whatever the precise figure, the public subsidy is still huge.'¹¹⁰ A more recent study of the hidden costs of parking in the US estimates the value of the off-street parking mandated by US city governments at between \$127 billion and \$374 billion a year.¹¹¹

'the extent of free parking is so enormous and so normal that people just think it nature's endowment, like air. Everyone feels entitled to free air and free parking....If we also count the subsidy for free and underpriced curb parking, the total subsidy for parking would be far higher. . . Do we really want to spend as much to subsidize parking as we spend for Medicare or national defense?'¹¹²

Another study puts US government subsidies for highways and parking alone at between 6 and 10 percent of gross national product. Accounting for other costs, such as pollution cleanup and emergency medical treatment would imply a subsidy of about \$5000 per car per year.¹¹³

Apart from helping destroy the environment, such subsidies also represent a transfer from taxpayers to wealthier citizens, who use the transport infrastructure disproportionately more than the poor, as they have better access to transport and more time in which to use it.¹¹⁴ Meanwhile:

There is little prospect of slowing the growth in China's oil consumption, because *the government* is committed to a car-led policy of development. The World Bank's Mr Dollar has recently described this as "a very questionable development choice"—though it had earlier been conceived with the World Bank's backing.¹¹⁵

I added the emphasis, because I think it's important to note that these choices are often not made by ordinary people, but by politicians and corporations – especially those in the construction industry.

Armaments

Thanks to Chalmers Johnson we know quite a lot about the costs of the US expansion into space weaponry in the form of the National Missile Defense (NMD) programme.¹¹⁶ Johnson explains why such a system cannot, and can never, work. In practice it's impossible to identify with the certainty required whether a missile launch is hostile or not, and then tell the difference between an incoming warhead and a decoy. Yet the NMD programme has already

swallowed up \$130 billion of public funds, a figure that was planned to reach \$1.2 trillion by 2015.

Jonathan Freedland takes up the story: ‘But the NMD pork-in-space project is far from exceptional. Seeking fat contracts, the big defense companies give donations to those politicians who will pay them back by commissioning expensive defense projects; the contractors then reward the politicians by locating their firms in their districts; finally the voters, glad of the jobs, reward the politicians by reelecting them.’ Johnson offers dozens of examples, including Florida's Democratic senator Bill Nelson, a member of the Armed Services Committee, who in the 2006 federal budget ‘obtained \$916 million for defense projects, about two-thirds of which went to the Florida-based plants of Boeing, Honeywell, General Dynamics, Armor Holdings, and other munitions makers.’ Since 2003, Nelson has received \$108 750 in campaign contributions from thirteen companies for which he arranged contracts.

As well as the massive waste involved, it's the self-perpetuating nature of this game that is of interest: there is no incentive for those involved – the chosen districts' voters, corporate contractors or politicians – to do anything to stop it. As Freedland puts it ‘Everyone benefits from this untamed form of military Keynesianism—except the next generations of Americans who can be expected to drown in a debt that now measures \$9 trillion and grows daily.’¹¹⁷

Subsidies given to arms companies in other countries may be less spectacular but they are not insignificant. A well-researched British study estimates that the subsidies provided to UK companies involved in defence exports are worth at least £453 million annually, and possibly up to £936 million.¹¹⁸

Implications of perverse subsidies

Ultimately, it is only a matter of opinion that these subsidies are perverse. It cannot be proven, when it comes to agricultural policy for instance, that the benefits to the tiny coterie of wealthy individuals and agri-business corporations are heavily outweighed by the financial and environmental costs to all other human beings (and many other species). Similarly with the fisheries subsidies and the wilder, fantastic high-tech armaments programmes like the US Nuclear Missile Defense Program. Perhaps I am also on dangerous ground with my disdain for subsidies to fossil fuels, where the short-term apparent beneficiaries are a bit more numerous; and even more so in my disdain for road transport subsidies. I think though, that if we consider the combination of two aspects, my thoughts will become clearer. The first is the lost opportunity that these programmes represent; that is, the diversion of significant resources into wasteful and environmentally destructive programmes that make many of us dependent on their continuation. The second is the processes by which these policies were set up. It was never intentionally decided that very large sums of money, for instance, would be paid annually to the richest English aristocrats, or large construction companies, or even to the actually quite small proportion of the population that has access to cars.

And the resource costs are significant. By the calculations of the Earth Council, subsidies to just three the sectors of agriculture, energy and agriculture cost the world's governments at least \$665 billion, and maybe as much as \$840 billion, a year.¹¹⁹ This amounted to somewhere between three and four percent of Gross World Product. This was very roughly

about 7 or 8 percent of world governments' total spending. These are cautious estimates applying to three sectors, and they ignore subsidies given to specific corporations.¹²⁰

Environmentally harmful subsidies

A workshop given by the OECD in 2002 attempted to quantify a slightly broader category of subsidy: environmentally harmful subsidies. Its estimates are similar – and similarly staggering. It looked at environmentally harmful subsidies in OECD countries, which mainly go to agriculture, mining, road transport and manufacturing, and in non-OECD countries where the main beneficiaries are the energy, water and fisheries sectors. The workshop found that, relative to GDP, subsidies are twice as large in non-OECD countries, and that as a proportion of world GDP, global environmentally harmful subsidies account for a staggering 4 percent. Perhaps most notable of all, agricultural subsidies in OECD countries account for over 30 percent of all subsidies.¹²¹

Persistence of perverse subsidies

All this tells us that very large absolute resources, representing significant proportions of government spending and national incomes are not only wasted, but contributing to and accelerating the destruction of our physical environment. They are only the most obvious wastages, where quantitative work has been calculated or estimated, collated and made public. They are also the programmes that are almost totally without redeeming features. As such it is particularly reprehensible *that there are no systematic mechanisms for halting these failed policies.*

Perverse subsidies are nothing new, and neither is knowledge about their perversity. The abuse of resources that constitute the rich world's agricultural policies, for instance, has been known about, and quantified, for decades. Their environmental depredations and the burdens they impose on consumers, taxpayer and developing countries have been estimated and documented for almost as long. *Yet these policies persist.*

It is not their size alone but the persistence of perverse subsidies in the face of all the damning evidence that casts doubt on other less obviously deranged government interventions, which might perform better, or which might just generate perversity that is on a smaller scale – or better concealed. They and their persistence may go some way in explaining the co-existence of very high levels of government spending with serious social and environmental problems. After all, governments that cannot dismantle perverse subsidies, given their cost and the long history of their well-documented failings, can hardly plead lack of resources. When the national governments of the richest countries that have ever existed squander so much, it is very difficult to argue that these societies' poverty amidst plenty, their environmental depredations and other failings arise solely from insufficient tax takings. Since policies as unambiguously dysfunctional as perverse subsidies persist, it's clear that governments do not have effective systems in place to terminate their failed programmes.

We can speculate as to why this is so. Anecdotal evidence suggests that people working in any large organization tend to believe that they should carry out only those activities that can

plausibly be justified on the basis of a past record. These activities need not be very efficient, or even partly efficient. As far as government bodies are concerned they need only to have been tried in the past and not to have been publicly identified as disastrous. This is not a strategy designed to optimise performance; nor is it even designed to minimise failure. Rather it is designed to minimise the *public exposure* of failure. There is an almost total absence of a self-evaluative culture. Most organizations are poor self-evaluators. Myths, false propaganda, and anachronistic beliefs persist in the absence of strong evaluative institutions to test ideas against logic and evidence. Organizations turn against their own evaluative units as they threaten jobs and the status of incumbents. And organizations can attack their own thinking apparatus if that apparatus does its job!¹²²

Poor policies can also be self-reinforcing. Take agriculture: the main beneficiaries of the complex array of agricultural support policies in the developed countries – large landowners, many of whom were already very wealthy by any standards; agricultural input suppliers; food processors; programme administrators – form a formidable coalition against change. Their power to resist reform oppose reform is of course largely a result of the agricultural subsidies in the first place. Donations to political parties come more from the rich than the poor and the parties align themselves with the sources of their funding. That’s one reason why agricultural subsidies are difficult to remove.

Another is lock in. In agriculture most of the subsidies inflate the price of farmland. A cut in those subsidies that are paid according to production levels (still the majority) would lead to a drastic fall in land values, causing genuine problems for those who borrowed money to buy land at its subsidy-inflated price. Lock in applies to other perverse subsidies. Road transport and fossil fuel subsidies have led to urban sprawl, or to be more accurate, they have led to more urban sprawl than an undistorted market would have preferred. They have also made motorised mobility more necessary than it would otherwise have been.

Perverse subsidies were originally well-intentioned; they stand exposed now as worse-than-useless, but inertia and vested interests block the reforms that are clearly necessary. Their persistence shows that:

- there is nothing intrinsic in the way government works that means it can terminate even its own failed policies,
- that even a well-meaning, democratic government’s priorities can be subordinated to those of vested interests, including those of its own agencies, and
- that government interventions are not necessarily driven by society’s goals and, indeed, can conflict with them.

Government is now so big that these flaws matter a lot.

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