

Hussein is hiding the evidence

A peaceful outcome is still possible in the Middle East, writes US Secretary of State, **Colin Powell**.

US President George Bush warned in his State of the Union address that "the gravest danger facing America and the world is outlaw regimes that seek and possess nuclear, chemical and biological weapons". Exhibit A is Saddam Hussein's Iraq. As the President said, we need only look at how Hussein has terrorised, oppressed and murdered his own people to understand his methods. And, perhaps most critically, the President confirmed that Iraq has open channels and ties to terrorist organisations, including al-Qaeda.



Colin Powell will address the UN Security Council tomorrow.

Photo: AP

However, instead of disarming, Iraq has responded with empty claims, empty declarations and empty gestures. Just a week ago, the UN chief weapons inspector, Hans Blix, told the Security Council that "Iraq appears not to have come to a genuine acceptance, not even today, of the disarmament that was demanded of it".

Indeed, the Iraqi regime is going to great lengths to conceal its weapons of mass destruction. The regime also has an active program of coaching scientists before they talk to inspectors and permits interviews only when minders are present.

Resolution 1441 established two key tests: a full and accurate disclosure of Iraq's weaponry and a requirement to co-operate immediately, unconditionally and actively with inspectors. Iraq has failed both tests.

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inspections, Blix's team discovered a number of chemical warheads not previously acknowledged by Iraq. Iraq also continues to acquire banned equipment, with proscribed imports arriving as recently as last month. The inspectors also reported that Iraqi activity is severely hampering their work.

Tomorrow, I will present to the Security Council US intelligence showing further evidence of Iraq's pattern of deception. Our evidence will reinforce what the inspectors told the Security Council last week — that they are not getting the co-operation they need, that their requests are being blocked, and that their questions are going unanswered.

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ADF funding does not reach its target

As Australia dispatches its military to possible conflict, **Mark Thomson** finds shortcomings in defence administration and spending.

As the ships, planes and troops of the Australian Defence Force make their way to Iraq it is natural to ask if Defence needs more money. It is a foregone conclusion that funds will be provided to pay for the deployment, but the question of another long-term funding boost is still open.

It is only two years since the government committed an additional \$23.5 billion over the decade in the Defence White Paper. And of the extra \$1.8 billion in cash that Defence received last financial year, it spent only a little over half, ending the year with \$835 million in the bank.

Can it really need more money already? Before jumping to any conclusions it is worth having a look at the 2001-02 Defence annual report to see how things are going.

There's some genuine good news. Recruitment and retention posted the best results for four years. Also, there has been a big improvement in the performance of many acquisition projects — almost twice as many achieved their goals compared with last year. This doesn't mean that longstanding problem projects are fixed, far from it, but it's encouraging news.

The ADF's capabilities were on average comparable with the previous year, despite operational

demands. But all is not well. On top of the impact of military deployments, the annual report cites a number of problems, including personnel and logistics shortages. Overall, 41 per cent of ADF capabilities only partially met their preparedness targets. That's about the same as last year. At least things didn't get worse.

So why did the Defence's bank balance rise to more than \$800 million while logistics funding was short? All the indications are that this was an unplanned result, notwithstanding claims of the need to cover future liabilities.

The simplest and most likely explanation is that Defence is unable to allocate money to where it is needed. There are two reasons for this. First, despite the expenditure of hundreds of millions of dollars, Defence's accounting, personnel and logistics information systems are not up to the job. It was no surprise when last year's financial statements earned a qualified audit opinion.

The second problem is that Defence's complex management

framework would place heroic demands on any corporate information system let alone the faltering arrangement that is in place. While the lines of military command are unambiguous, the management framework is not.

Responsibility for delivering military capabilities belongs to the service chiefs, but essential parts of those capabilities, like logistics support, are controlled by others. It is matrix management on a grand scale. This makes it very difficult to estimate costs and budget for future activities. Worse still, the framework clouds accountability by denying control of key resources to those who have to deliver the final product.

The annual report also contains worrying indications that some of the hard-won efficiencies of recent years are slipping. The 1997 Defence Reform Program produced recurrent annual savings of more than \$600 million, mainly through workforce reductions. However, spending on consultants and contracted professionals increased to \$280 million in 2001-02, despite

concealing the evidence of his weapons of mass destruction, while preserving the weapons themselves. The world must now recognise that Iraq has not complied with the will of the international community as expressed in Resolution 1441. Iraq has failed the resolution's two tests — to disclose and to co-operate — in a manner that constitutes a further material breach of the resolution.

In response, the US will begin a new round of full and open consultation with our allies about next steps. Much has been made of the friction between the US and some of its traditional partners over how to proceed with Iraq. We will work to bridge our differences, building on the bedrock of our shared values and long history of acting together to meet common challenges. The fruits of our partnership are evident all around the globe, from Western Europe to Japan, Korea, Bosnia and Afghanistan.

Together we must face the facts brought to us by the UN inspectors and reputable intelligence sources. Iraq continues to conceal deadly weapons and their components, and to use denial, deception and subterfuge in order to retain them. Iraq has ties to and has supported terrorist groups. Iraq has had no compunction about using weapons of mass destruction against its own people and against its neighbours. President Bush's message has been clear from the beginning. The President eloquently and persuasively set forth the US position at the UN on September 12. A peaceful outcome to this situation is possible if Iraq co-operates with the UN and disarms.

Unfortunately, Hussein seems to be leading his nation down another path. The US seeks Iraq's peaceful disarmament. But we will not shrink from war if that is the only way to rid Iraq of its weapons of mass destruction.

This is an edited version of a column written by Colin Powell for The Wall Street Journal.

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budgeting for a reduction, compared with only \$84 million three years ago. Civilian numbers increased by 8 per cent during 2001-02, again after budgeting for a reduction, while civilian per-capita costs increased by 10 per cent compared with the previous year — due in part to the disproportionate growth in executive and senior positions.

Meanwhile, the largest efficiency initiative claimed by Defence in 2001-02 was, in fact, a tax refund. So there's a lot to be done before we can be sure that more money is needed or that it will be well spent. Accountability must be sorted out, effective financial management established, and assurance of fiscal discipline is sorely needed.

All this will take time. But with a need to lock down the budget in the near future, the government faces a difficult choice. Does it increase defence spending and risk having half of the federal surplus sitting in Defence's bank account, or will it hold firm and hope that the ADF has what it needs to see it through Iraq and the challenges beyond?

Mark Thomson is the director of the Budget and Management program at the Australian Strategic Policy Institute. These are his personal views.

Tax system perpetuates poverty trap

Toby O'Connor

Parliament returns this week, it'll be interesting to see if the federal government can establish a solid third-term agenda. War and terrorism cannot fill the void permanently and the fires have brought Canberra's attention back to domestic vulnerabilities.

Welfare reform could become the leading issue by focusing on the problem of massive poverty and work-disincentive traps. We have known for years that the tax and social security systems don't interact well. With the impact of taxes and means testing of benefits, low income earners do not get much back from every dollar they earn. And the unemployed know that even if they did get a job, they would be in the same boat (retaining as little as 13¢ in the dollar for their labours).

The economic case for reform is clear-cut: work disincentives distort labour markets and exacerbate unemployment. The National Centre for Social and Economic Modelling analysis shows that 22 per cent of the poorer half of the nation face high effective marginal tax rates (EMTRs) of more than 60 per cent. One in two working sole parents faces high EMTRs. Also, a large number of people is discouraged by these poverty traps from entering the workforce.

The social case is equally strong. People in need have a right to income support. But they also have the right to expect that the tax and welfare systems will interact in a way that encourages rather than penalises their efforts to increase their labour market participation. The government is not reticent about punishing those who breach their agreements with Centrelink. But this is one-sided if not matched by positive incentives structured into the tax and welfare systems.

Serious welfare reform needs to consider what underlying structures of the system are going to foster hope and confidence for better times for those who are on benefits.

A number of reform proposals are making the rounds, often focusing on tax credits to soften the impact of the high EMTRs. These proposals have broad appeal. So it is really annoying to see a conservative think tank come out against tax credits describing it as a form of welfare handout! This is from the same quarter that attacked the Smith Family's analysis of poverty rates and suggested the incidence of poverty was being exaggerated.

It is one thing to argue the toss about difficult measurement issues. But it is quite another to consistently try to oppose those who seek to raise the question of poverty and advocate proposals to redress it. There is a hard and almost brutal edge that seems to come from this analysis which is most disturbing.

But there are grounds for optimism that reforms will occur. Employment Minister Tony Abbott has raised the issues as a personal priority. The potential macro-economic benefits are sufficiently high to justify a bipartisan approach to the issue. Reducing unemployment will increase the productivity of the labour force as a whole.

Productivity and participation are the primary drivers of GDP per capita and living standards in this nation. Moreover, when these benefits are combined with fairer access to benefits of employment, then the wellbeing of all Australians will be enhanced.

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