Dry

In Defence of Economic Freedom

John Hyde

It is not what the lawyer tells me I may do; but what humanity, reason and justice, tell me I ought to do

Edmund Burke

To all who aspire to hold or influence political office

Acknowledgements

My most fundamental debt is to those people who educated me in the fundamentals of freedom beginning with my parents and progressing to the late Bert Kelly and all those alongside whom I had the honour of labouring in the Good Fight.

More specifically I am indebted to many people who assisted me with assembling the material for this story and to others who at considerable inconvenience to themselves dealt appropriately with my faulty understandings, egregious omissions, bad argument and bad English. First among these is Professor Wolfgang Kasper whose criticisms unearthed errors of fact, emphasis and argument. I am also indebted to Dr Hal Colebatch, David Trebeck and Professor Geoffrey Bolton. I am indebted to Helen who has put up with two years of 'the book' dominating our lives and floor space in our home. She further has an ear that identifies the pretentious!

Chapter 3, although tempered by my experience of Bert Kelly who was my mentor and friend, draws heavily on the unpublished work of Shaun Kenaelly who studied Bert's life and his contribution to public policy in great detail. Keneally's unfinished account is in the possession of Mr Ray Evans of Melbourne. Although a draft, I recommend it to any serious student of the events and their times. He will be rewarded also by some beautifully written passages.

The remaining errors and ill-chosen omissions, and my necessarily incomplete appreciation of some of the unfolding events are, of course, entirely my own doing.

Dry

In Defence of Economic Freedom

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Foreword by the Hon Peter Walsh to the Text Published by the Institute of Public Affairs

In the early 1980s a Labor Caucus colleague described John Hyde to me as a "fascist". Finding a more egregious error would require a long hard search.

The defining attribute of a fascist economy is the Corporate State in which economic power is transferred from markets to government/industry collectives. Though Mussolini's Italy was the purest Corporate State it was borrowed by Hitler's Germany and in a milder degree by quite a few Western democracies, including Australia.

Fascist regimes are invariably authoritarian, the media is an organ of the State and dissent is suppressed, often by State sanctioned violence.

Anyone who reads this book will understand how absurd, on both economic and ideological grounds, it is to label Hyde a fascist. They might be surprised to learn he did not support conscription for Vietnam or the abolition by Malcolm Fraser of any taxation of inherited wealth. In the political spectrum the latter places him to the left of many in the Australian Labor Party.

This book however is not Hyde's autobiography. It is a record of a 20 year struggle by 'the Dries' to curb the Australian version of a Corporate State, i.e. monopoly marketing boards, quotas, financial regulation, tariffs, and labour market regulation. Dries were driven by twin beliefs that an open economy would enhance economic output, efficiency and, equally important, that a corporate state which rewards rent seekers and bludgers is socially and morally pernicious. There was ample evidence to support both.

The Dries comprised about 10 Federal MPs, mostly backbench Liberals advised by a few key people outside Parliament and inspired by the Modest Member Bert Kelly.

Predictably the National Party led by Doug Anthony was an impediment to policy reform as, equally predictably, was Malcolm Fraser. In regard to the latter, Hyde cites two examples of the type of duplicity which former Attorney General Tom Hughes exposed at Sir John Gorton's funeral.

The work the Dries had put in made little policy progress while the collectivist/mercantilist Fraser Government remained in power. When it lost the election, so did Hyde. He then observed and applauded the 1980s Labor Government implement much of the Dry agenda.

Peter Walsh
Perth
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Introduction

Much of the world is still horrible but during the final quarter of the 20th Century life spans greatly increased almost everywhere especially in the once-poor countries of East Asia. The economic order that achieved these momentous gains is now threatened by 'anti-globalisation'.

We began the new millennium with blessings close to home. Australians were enjoying sustained economic growth of 3 to 4%. Real wages had increased by 3.8% a year since 1995-96.[1] Inflation was around 2%. Unemployment had been reduced from around 11% to fewer than 7% although much 'hidden unemployment' had to be conceded. We had escaped the so-called 'Asian melt-down' almost without the need to notice it. We had a budget surplus of 2% of GDP but less than two years later we found ourselves worrying about how to finance a military contribution to the fight against terrorism or, far worse, a war.

These benefits were associated with the partial reversal of a long downward trend in Australia's relative living standards. When compared with other rich countries – all of Western Europe, the US, Canada, Australia, New Zealand and Japan – Australia's per capita GDP, expressed as the percentage of these, declined from 132.3 in 1950 to 99.9 in 1975 where my story begins. They declined further to 88.6 in the 1992 recession but since then rose to 95.5 by 1999.[2] The improvement had not been brought about by a favourable shift in our terms of trade – the ratio of the prices at which we import and export. Between 1990 and 2000 these had moved against us by about 7%.

Other countries at other times had done much better – post war Germany and Japan and the Asian Tigers despite their recent difficulties, for instance. It was, nonetheless, a remarkable turnaround. It did not occur by chance but was caused by a period of exceptionally good government from 1983 tailing off in quality during the 1990s.

Federal politicians that had once led the charge for economic freedom and generously supported a reforming Labor Government returned some way towards bad old ways. They squandered much of the budget surplus that they may need to finance international conflict. They extended the tariff protection of the motor and textile clothing and footwear industries. They subsidised enterprises that could not raise their capital at market prices, for instance, a Queensland magnesium mine and the Darwin to Alice Springs Railway. They needlessly put money into the housing industry after the industry's downturn had passed. Following upon what was admittedly a frustrating time in the Senate, they ceased trying to reform the labour market. They used the foreign investment powers to prevent the commercial take over of the petroleum gas producer Woodside. Trying to out-Hanson Hanson, they imposed costly requirements on Telstra that we all pay for. They maintained the wheat export monopoly. In all these things and more they behaved as though the privileges they

[1] Parnham et al, *Distribution of the Economic Gains of the 1990s,* Productivity Commission, 2000, Box 3, p xxiii.
[2] I am indebted to Ian Castles, the former Commonwealth Statistician, for these calculations which appear in the Appendix in greater detail.

granted were acts of their own benevolence rather than employment of powers and moneys held in trust. I contend that our children will pay for these inefficiencies that always attend privilege. In short, they have partly reverted to the bad habits of the Fraser years.

My thesis is that our changed fortunes did not arrive by chance and that the gains could all too easily be squandered.

During the final quarter of the Century most of the world experienced a struggle between liberalism and socialism. In almost every country, socialism gave ground and the more extreme forms of it were discredited. But nowhere has liberalism yet swept away the habits of three generations of increasing collectivism. It is now threatened by the pursuit of causes rather than philosophies and it remains the case that everywhere Government is bigger and the area of private action left to individuals smaller than at the beginning of the 20th century. Nevertheless, although the journey to liberalism is far from over and is beset by aimless meandering, much has been gained.

This is an account of how attitudes and public policies were changed in Australia. It recounts the journey during the last quarter of the 20th Century of an ideal concerning the proper conduct of public policy – its travails, considerable successes and partial setback. Many people played parts in the drama. The unfolding story tells what an ill-defined but, nevertheless, identifiable group, that I call ‘the Dries’, believed, learned, did and failed to do. It shows that argument, properly used in a liberal democratic society, can bring changes by legitimate, peaceable means, and that ‘the good fight’ is worth the effort.

Chapter 1
The Role of Dry Philosophy

The ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood… Practical men, who believe themselves to be quite exempt from any intellectual influences, are usually slaves to some defunct economist. Madmen in authority, who hear voices in the air, are distilling their frenzy from some academic scribbler of a few years back.

John Maynard Keynes in the final paragraph of *The General Theory*.

During the 1990s our economy exhibited resilience that a decade before would have been unthinkable. Hundreds of thousands escaped unemployment and we gained wealth to devote to public or private ends that would not have been possible, had not both major political parties been true to a political ideal.

The ideal is as old as representative Government, but politicians have too often paid it only lip service. Its champions are today, often pejoratively, referred to as 'economic rationalists', but had been known simply as 'Dries'. They owe their origins to the excesses of the Whitlam years and obdurate refusal of Fraser's Governments to address all too apparent injustices and inefficiencies. In the several political 'shoot outs' over these injustices and inefficiencies they wear the white hats, but their individual roles are transient ones in an account of the fortunes of the ideal itself.

It calls for smaller but stronger Government that concentrates on protecting the 'institutions' by which individuals may play out their own lives co-operating and competing voluntarily. The habit of following rules of conduct is quite different from the knowledge that one's actions will have certain outcomes. The ideal is thus not an end but a way by which an optimistically viewed future may be discovered. At least to date, it is followed most in those nations to which people choose to migrate.

A Trojan Horse

Nobody who has experienced the influence of Karl Marx should deny the potential of ideals. Some ideals acquire convenient brand names such as liberalism, socialism, fascism, communism, corporatism etc. but these are not as reliable a guide to quality as are Big Mac or Coca Cola. Some are claimed by their polar opponents and stood upon their heads. This has been the fate of 'liberalism' so that I now must refer to 'classical liberalism'. The defining characteristics of 'dry' and the preferred adjective of its opponents', 'economic rationalist', have not (yet) been either negated or expanded to the point where particularity is lost. Thus, when we use either term, people can have a very fair idea of what we are on about. Further, although Dries are by no means of one mind on everything, they are not (yet) so factionalised that distinctions equivalent to Trotskyist and Stalinist are needed to make sense of their campaigns.

Most ideals pass barely noticed into oblivion and even the most influential may be ignored or derided for as much as a century. For the first three quarters of the 20th Century, classical liberal philosophers and economists even of the standing of Adam Smith, Ludwig von Mises, Friederich von Hayek, Karl Popper and Milton Friedman were seen in intellectual circles as Canute-like figures futilely admonishing the

inevitable. The publications of the fledgling think tanks of the 1960s and 1970s were dismissed as amusing intellectual games. The arguments of Bert Kelly, the Federal Member for Wakefield, were dismissed as quaint but irrelevant. Before the late 1970s the collectivist tide flowed strongly. Classical liberals everywhere were portrayed as naive, derided or ignored, and starved of academic recognition.

However, just as a few warriors inside a deceptively-simple trophy once breached the walls of Troy, an apparently trivial minority with a deceptively-simple ideal helped to bring down the Berlin Wall and the Soviet Empire. In the West, however, no barricades were manned and no speeches were made standing atop military hardware. Organisation and persistence was, however, required and consistently correct forecasts wore the opposition down.

Those who organised and persisted were members of an informal group who in Australia became known as 'the Dries'. Originally 'dry' meant merely not 'wet', a public-school term meaning feeble or timid. The essence of dryness is still the willingness to face unpleasant facts and the ardour to take action. However, 'Dries' have become associated with particular interpretations of the facts and prescriptions of the necessary actions and may also be identified by the beliefs that they share and proselytise.

A short account of where I am coming from is only fair to the reader. While still at school, I was an unsophisticated democratic capitalist. That is hardly surprising. My father was a successful farmer, a capitalist. He believed he had borne arms to preserve democracy. He had a reasonably sophisticated view of history, and both my parents had much of the Protestant work-ethic and that middle-class morality that includes acceptance of obligation to the wider community. We were mindful of the roots of the successful Australian community and we discussed these occasionally. We feared communism as we had feared fascism and for much the same reasons. We believed that democracy is the least bad form of Government and market capitalism the only effective way of creating wealth. We distrusted socialism both because we believed it would not produce wealth and because it necessarily meant the concentration of authority. I had read *Mein Kampf* before I left school and I read the *Communist Manifesto* not long afterwards. My father had campaigned against bank nationalisation.

Like most others in the 1950s, I thought that Keynesian demand management could insure that the world never experienced another depression. I did not then seriously question organisations such as the Arbitration Commission and the Australian Wheat Board. They had seemed a fact of life. My acceptance of them and other collectivist hopes was eroded quietly by experience. Although there are as many ways to dryness as there are Dries, I believe my experience was reasonably common.

A small number of Dries – very few in Australia although more numerous in North America – were once socialists with strong social consciences and high hopes of building a world with less injustice and poverty. Known in North America as neo-conservatives, their paths to dryness were more arduous than mine. They were, it has been said, 'mugged by reality'. They cast aside beliefs by the bucketful, but not their intention to contribute to a better society. They were to be found in the vanguard of many struggles.

The brave men and women who fought for freedom behind the iron curtain and in Latin America have basically the same world view. However, they have been sources of inspiration more than instruction in western nations. A political struggle waged without the protection of the fundamental civil rights is very different from that experienced by Australians. The ideas and the tactics that brought about the public policy revolution in Australia were nearly all developed within western nations – most notably Great Britain and the United States.

How these ideals were sown and cultivated by a minuscule band of mostly happy warriors is a tale worth the telling, but first we must identify the ideals themselves. They have roots that can be traced down to at least the Levellers in the 1640s.

What's in a name?

Before there were 'Dries' there were 'Wets'. Margaret Thatcher does not admit in *The Downing Street Years* to having christened them, but she probably did. Wets were, she wrote, Cabinet members who 'opposed budget cuts in Cabinet and in the indecent obscurity of leaks to *The Guardian'.* Australian Dries sometimes liked to describe themselves simply as people who faced reality but they had beliefs that identified them. The Dries that concern me all had another, for my purposes defining, characteristic: although many were not politicians, they were all political activists trying to change public policy.

In *The End of Certainty*, Paul Kelly has these things to say about them[3]:

- they 'were given various labels – classical liberals, economic libertarians, the free market lobby, or Dries'.
- they, 'like all successful reformers, were zealots with a touch of naivety'.
- they 'were indigenous in their attitude and international in their outlook'.
- they took 'as high priests of their doctrine the eighteenth century philosopher and economist Adam Smith; the Austrian theorist Friedrich Hayek, and the American economist Milton Friedman…. From Adam Smith the Dries seized the idea that both parties who freely enter an economic exchange can benefit and that a high correlation exists between individual interest and public interest. From Friedman they took the notion that the failure of contemporary economics derived from the excessive role of the state. From Hayek they began to realise that they were not conservatives who merely sought to resist the socialist expansion of state power, but they were liberals who sought a different direction – who sought to liberate the individual from state controls, directions and solutions. This was a political tradition which throughout Australian history had been particularly weak. Of course, not all Dries embraced all three notions.'

Although Kelly's treatment of the Dries is sympathetic, these observations merit some embellishment.

He is right to accuse the Dries of zealotry. We refused to accept that others did not attach the same importance to our cause and were quick to claim the high moral ground, stressing equality of opportunity, security, justice, social harmony and

[3] Paul Kelly, *The End of Certainty,* Allen & Unwin, 1992, p34 and following

national and international peace. Many people, therefore, found us tedious. The charge that we were naive is, on balance, also a fair one, but the parliamentary Dries were never so naive that we expected easy victories. I once remarked to Peter Shack, the Federal MP for Tangney, that even if we were able to delay by five years the date at which Australia got into serious trouble our efforts would not have been in vain. Although he protested that I was too pessimistic, those present accepted the tenor of my remark. Further, the Dries in Parliament were always conscious of being but a modest battalion in 'the good fight'[4] – providing a parliamentary dimension to a struggle waged by Treasury and Reserve Bank officials, the Tariff Board/Industries Assistance Commission, several academics and a few businessmen such as Hugh Morgan of Western Mining. Of course, our use of expressions such as 'the good fight' marked us as zealots, some said 'self-opinionated zealots', but as initially we were but a tiny minority facing more than some ridicule, some morale-preserving Tom-Foolery was excusable.

Inasmuch as Dries drew heavily on experience overseas and favoured what has since become known as globalisation, they were international in outlook. However, most Australian Dries had little faith in extra-national organisations such as the United Nations. Entry into the European Union divided Britain's Dries.

As Kelly observes, not all Dries embraced the essence of all three of Adam Smith, Milton Friedman and Friedrich Hayek, but the more prominent parliamentary Dries of the 1970s, did. Striving for consistency, in search of authority and rhetoric to support our policy positions and for the sheer enjoyment of it, we learned much of the sources of our philosophy from books, colleagues, officials and academics, but we did so as we went along. It is probable, however, that all of us had before we started read and appreciated Hayek's short paper, *Why I am not a Conservative*, his book *The Road to Serfdom*, and Mill's *On Liberty*.

Optimistic Moralism

Dries believe that successful social interaction, not least that part of it referred to as 'the economy', depends utterly on adherence to codes of behaviour that ought to be regarded as good, that personal behaviour and community mores may be improved, and that by improving them the course of history may be improved. These codes include both the 'internal institutions' preventing lying, cheating, shirking, negligence and indiscipline that evolve within society and are enforced spontaneously, and Government-imposed law. Dries are thus far removed from moral relativism! Many here owed much to Michael Novak, who in 1982 published his influential *The Spirit of Democratic Capitalism*. Although by no means all Dries shared Novak's religious conviction, he articulated with telling clarity most fundamental ideas identifying Dries.

> Of all the systems of political economy which have shaped our history, none has so revolutionised ordinary expectations of human life – lengthened life span, made the elimination of poverty and famine thinkable, enlarged the range of human choice – [as has] democratic capitalism….

[4] The expression was one used frequently by Austin Holmes, head of the research department at the Reserve Bank.

> What do I mean by 'democratic capitalism'? I mean three systems in one: a predominantly market economy; a polity respectful of the rights of the individual to life, liberty and the pursuit of happiness; and a system of cultural institutions moved by ideals of liberty and justice for all. In short, three dynamic and converging systems functioning as one: a democratic polity, an economy based on markets and incentives, and a moral-cultural system which is pluralistic and, in the largest sense, liberal….[P]olitical democracy is compatible in practice only with a market economy. In turn both systems nourish and are best nourished by a pluralistic liberal culture.
>
> …these impulses … aimed (1) to limit the power of the state, in defence against tyranny and stagnation; and (2) to liberate the energies of individuals and independently organised communities. … economic liberties without political liberties are inherently unstable … the state that does not recognise limits to its power in the economic sphere inevitably destroys liberties in the political sphere.
>
> Democratic polities depend upon the reality of economic growth.
>
> …liberty requires social mobility. While statistical differences between strata necessarily remain, *individuals* must be free to rise from one level to another.
>
> Without certain moral and cultural presumptions about the nature of individuals and their communities, about liberty and sin, about the changeability of history, about work and savings, about self-restraint and cooperation, neither democracy nor capitalism can be made to work.[5]

Of ideas and interests

For a while much conventional wisdom had it that the ideological struggle that had raged between liberalism and collectivism ended in liberal victory in 1989 with the fall of the Berlin wall. However, in Australia, except in a few universities, it had ended well before then. Collectivism was practiced, maybe more than ever, but its defence was conducted by people with interests in the *status quo* rather than in an ideal and they used the language of efficiency rather than that of class conflict. Therefore, Dries only rarely and then rather ritualistically participated in the Battle Royal of ideologies. Instead, they undertook the more mundane task of skirmishing with vested interests and the Governments that did their bidding.

Dries' opponents also professed liberty, equality and fraternity – who today dare not? – but tended to be selective in their application. The interests Dries opposed were tribal and slaves to xenophobic distrust of not just foreigners but of other industries, cultures, social classes, States and so on. Labour expected to be ripped off by capital and *vice versa*, the bush by the city and *vice versa*, the outlying States by the triangle of Melbourne, Sydney, Canberra, the customer by the producer, everyone by the middleman, and the uneducated by the educated. The list could be a long one, with prejudice tending to coincide strongly with interest.

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[5] Michael Novak, *The Spirit of Democratic Capitalism*, Simon & Schuster Inc. 1982, the Introduction.

Those who sought Governments' favours and the politicians who granted them could not, however, admit to demanding privileges by which the few gained advantage over the many. Therefore, they tortured logic to explain why particular privileges served public ends. Tariffs, tax breaks, regulations, occupational licences etc were defended by minimising their costs and asserting often spurious community benefits. Dries attacked the tortured logic.

They usually did so at some disadvantage. Established interests use their dominance to drown the voices of their critics. When the dominance is made secure by statutory monopoly, the economic rents were often turned to financing campaigns to ensure the continuance of the relevant statute. Telecom, Australia Post, the Australian Wheat Board and the Australian Wool Corporation each used the rents screwed from customers or producers who had nowhere else to go to mount campaigns to justify the laws that ensured that customers or producers had nowhere else to go.

In asserting the dominance of ideas, Lord Keynes, writing in the 1930s, had thus discounted organised incumbent vested interests too heavily. Perhaps the last quarter of the century was a less ideological time because by then ideals competed to influence public policy not only with each other but also with interests, while incompatible interests competed with each other.

At the core of dry belief

Nevertheless, not bound by common interests, the opinions that Dries shared identified them. We could not have been an entity without a philosophy, but our beliefs proscribed the powers needed to create designer Utopias.

Keynes' 'practical men', who believed themselves to be quite exempt from any intellectual influences, were, however, unimpressed by our humility. They so often accused us of blind adherence to ideology that we thought they found the accusation easier than argument. Although we denied that our beliefs were blind, we had faith in our cause. Had any of us been there, we would have smiled smugly when Margaret Thatcher asked disdainfully whether So-and-So was 'one of us'. Ours was the Good Fight! We had doubts aplenty about individual policies but about the worth of our cause, few.

Although most of us would happily have admitted to being creatures of the Scottish Enlightenment in the intellectual tradition of Hume and Smith, only a few of us thought deeply about the subtleties of philosophy. Without caring, or in my case knowing, what John Locke had said about the matter, we accorded moral status to individuals and it followed from that that people were entitled to choice but could not escape the consequences of their choices. Following Locke, albeit often unknowingly, we saw 'civil society' as a community of self-motivated, free citizens – members of a spontaneous non-political order. That most of us did not study our philosophy's sources did not, however, imply that our beliefs were half-baked.

They were sufficient to impose considerable consistency upon us. For instance, by the criterion of equal status in law, apartheid, ethnic subsidies and industry protection were all unsatisfactory. And, among ends that almost nobody disputed, our worldview established priorities. Faced with the recurring trade-off between security and freedom, we drew a line nearer to freedom than did many people.

Our prime concern was with the misuse of public authority. I recall an amusing passage of arms at the State Council of the West Australian Liberal Party when, during one of many tedious debates on 'States Rights', Senator Reg Withers asserted that States don't have rights: only people have rights. Although his intention was no doubt to bait Sir Charles Court, Withers set me off on chain of reasoning that affected my subsequent behaviour.

Dries were classically liberal in their belief that the powers of the Crown, Parliaments and Courts are held in trust, the terms of which require the powers to be exercised only on behalf of the public who are of one class – that is, privilege is abhorrent. The authority of the Crown, Parliament and judges is not only derived but also strictly limited by law and custom. Dries were not to be found among those clamouring for 'flexibility' in either law making or administration. Indeed weparticularly disliked law-making judges who departed far from precedent.

I believe most Dries think that Pitt the Elder and Lord Acton made very fair points when they warned of the corrupting tendencies of power. For that reason too, they wished to see it constrained and dispersed. Therefore, during the 1980s and 1990s when they were often frustrated by the Senate, the federal system and the courts, they were seldom heard railing against the checks and balances. A time when the political tide ran in the opposite direction was too easily recalled.

The defining feature of Government is the lawful use of force and we did not question Hobbes' observation that without effective authority 'the life of man [would be] solitary, poor, nasty, brutish and short'. We fought what we thought was the misuse of authority but we were not anarchists. It is the case, unfortunately, that even democratic politicians too easily travel from the correct opinion that they can use power for the common good, to the belief that in their hands it will be so used, to the assumption that their own positions of power are in the public's interest, to preserving and extending their own powers and tenures by avoiding due process.

What is more, order has many sources beside Government. Embracing all, there is that sense of right and wrong that, until the word was made unfashionable, we called morality. There is also sympathy for the circumstances of other people that we used to call charity or simply kindness. Without these virtues, families would be impossible, commerce would be impossible, sport would be impossible, Government would be impossible and social living would be impossible. Indeed life would be bloody impossible. There are also the written and unwritten rules of various markets; the written laws of cricket; the rules of courtship and so on and on. These have evolved by trial and rejection of error and are not easily rewritten. Nor is Government the only mediating organisation. There are families, friendships, schools and universities, clubs and associations, trade unions and companies, to name only some others.

Weak Governments are slaves to demands for discriminatory legislation. When they make favourites or meddle in matters best left to the 'soft' rules of civil society the statutes lose respect. It is true that Dries have more confidence in the efficacy of rules that people obey from conscience or because they do not wish to forfeit respect or market opportunities than have many people, but Dries do want the state to uphold the rules it makes. They urge Governments to restrict their legislating enthusiasms to their

protective roles and to matters where certainty can be offered. They expect law that is fair and their bitterest arguments have been with Governments that have favoured some Australians at the expense of others.

Of course, none of this is original. When in 1981 or 1982 my attention was drawn to the extent that the Parliamentary Dries' program followed that of the Levellers' in the 1640s I had thought hardly at all about my considerable debt to long-dead Dries. Others who were better read than I was may have known in whose footsteps we trod but I seldom did. I think our instruction came mostly from modern writers and from observing hypocrisy in action.

Friederich Hayek was perhaps the most important to us of these modern writers. He saw societies as organic entities, in the sense that they have the means of their development within themselves. They evolve and, given present knowledge and ability to marshal data and ideas, cannot be reproduced. For the time being at least, they are beyond the wit of man to understand in all their complexity. To believe otherwise is 'The Fatal Conceit', the title of Hayek's final book. They are in this respect like ecosystems, which no one can design or create.

Like ecosystems even in their relatively undisturbed state, some are more successful than others, offering their participants lives that are less brutish and short. Like ecosystems, they are in fact not fragile but remarkably resilient. Nevertheless, they can, also like ecosystems, by upsetting the balances, be reduced to relatively unsatisfactory conditions, as in Bosnia and Chechnya.

Like ecosystems, they can, with judicious management, be preserved from destabilising forces. They can be improved, but only at the margin. Following Popper, Dries believe that social engineering, to have a reasonable hope of success and to be safe, must be piecemeal, with each piece tested by experience. A successful society must be willing and able to abandon what does not work. Moreover, the criticism that Dries undermine those traditions that function well does not square with their support for institutions of proven worth such families, parliaments and markets.

Not Utopian

Dries do not, therefore, have a vision of the ideal society. Indeed they disparage 'coercive utopians', the constructivist rationalists who think they can impose a pattern upon the organisation of a whole economy, like engineers working from a blueprint. Man's attempts to design Utopias have a poor record – none of the unlamented socialist states, Nazi Germany, revolutionary France, Sparta, the Paraguayan experiment and the Communist states, for examples, provided their people with the sorts of societies to which we would wish to migrate.

Dries point to trends and examples to reinforce their arguments but concede that the future is unknowable and the possibility of error undeniable. It has proved singularly difficult to sell the ability to retreat from error as a political ideal. Yet it is among the most important!

Unlike the societies of all of the Utopian ideologies, the societies that have tended to offer their citizens lives that are least brutish and short are those where the

Government is a humble one, leaving alone what can be left alone, avoiding favouritism and intervening only on the basis of equality before the law.

History teaches that people given authority over other people tend to become tyrants even when they are well intentioned. The Dries' world-view does not include men and women of such superior understanding, morality and wisdom (particularly not themselves) that can be trusted to identify – let alone to run – the ideal society. Their formulae therefore tend to limit rather than to direct the employment of power and to make fewest demands on the assumption of superior understanding.

In most things the Dries were liberals. Liberalism differs fundamentally from its alternatives in that it does not depend upon a metaphysical construct of the good society. Reality is what exists rather than some 'form' or 'essence' that is not necessarily observable.[6] Thus the Dries' evaluations tend necessarily to be empirical, whereas thinking in some other schools tends to be deductive from postulates often treated as truths. At bottom, all we were saying was that the best society is likely to be what free and equal people make of it. Painting no vision of Utopia, dry philosophy may be more difficult to employ inspirationally than one that promises more, but it offers the advantage that it is not dangerous and has a proven track record.

Not libertarian

Although most, perhaps all, Dries have affinities with people who claim to be 'libertarians' (a term that has lost precision), few would not have the Government maintain a welfare safety net or deny it the powers to administer one. For instance, although many (I think most) opposed the Australia Card[7] it was not the *cause celebre* for them that it was for many people. Their opposition arose at least as much from fear of how Governments might employ such a database as from objection to the promulgation of people's private affairs. They knew that after military defeat or otherwise the Australia Card and its associated database could be employed for ethnic cleansing, but so could Tax Office, Medicare and passport records. Knowledge about other people's affairs, although sometimes distasteful, is not of itself dangerous. Information is not, as some say it is, power, but it does allow power to be used purposefully. It is concentrated power itself that is dangerous and to which Dries more or less uniformly object. Similarly, there was no identifiable dry position on gun control. The balance of public benefits and disbenefits was unclear to them.

Although Dries believe it is morally indefensible for majorities needlessly to impose their opinions on minorities, they differ from libertarian purists also in their acceptance of laws that restrict liberty but which they believe have sufficient other justification. They accept food-safety and work-safety laws because, such is the high cost of each individual acquainting himself with the condition of food and workplaces, some law is practical.

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[6] Political philosophers trace two broad traditions of political theory back to the metaphysics of Plato and alternatively to 'natural law' of the Stoic school of Greek philosophy through Roman law and Christian tradition.

[7] A proposal to require Australians to carry identification to aid Government administration of welfare, tax and immigration law.

Dries tend to be economic liberals and social conservatives but they divide on laws regulating drugs, alcohol, prostitution and much else to do with personal morality and prudence. These are not, therefore, issues that can be used to define the wet/dry divide. Those Dries who oppose laws regulating private behaviour that has little by way of social consequences are not, however, libertines: they believe in moral restraint. So do most serious libertarians – liberty is not license.

The laws that most offend Dries tend to be those that restrict important civil liberties, particularly those restricting gainful employment, but not all Dries defend all personal liberties, even some that I think important.

Economic Rationalists

Warm and fuzzy people and cold and calculating people defending privileges often accuse Dries of being economic rationalists who they say believe that material well-being is all that there is to life and that people are always rational in its pursuit. They demolish a straw house: I can recall no dry who believed either fallacy.

Economic rationalism is a confusing term but one that is in such common usage in Australia, that I dare not, as I would prefer, put it to one side. It is a particularly odd tag for mainstream Dries whose interests are not solely economic and whose practice tends to be empirical rather than rationalist. Dries do not give dominant authority to reason when determining courses of action. That is, in that sense, they are not rationalists. On the contrary, they argue that society is so complex that it cannot be comprehended, let alone regulated in ways that will produce beneficial outcomes for most of its members. They argue that this is the case even when those doing the regulating are well disposed to the interests of the multitude, which often they are not.

They tend to follow Hayek[8] and the Austrian economic school generally that is sceptical about the whole notion of equilibrium and the economic modelling based upon it. As Dries see the world, the problem for a society regulated in detail by reason is thus not merely the insoluble one of finding guardians of the guardians. There are also the impossible difficulties of supplying the guardians with necessary information about the preferences, aptitudes and physical resources of millions of people with which to make rational choices, of discovering new information and of finding guardians who can analyse even as much data as they do possess.

Establishing averages and trends among people, who possess individual rights, resources, aptitudes and hopes, won't do. It is not reasonable to prescribe and proscribe needlessly and in detail for collectives – society, the union movement, employers etc – as though these were homogeneous.

It is not that most Dries find no place whatever for economic modelling which can assist in answering various 'what if' questions. Rather some Dries warn against the assumptions – sometimes made by their brethren – that equilibrium represents the real world and that averages, or even averages of margins, represent individual instances. The Treasury, Reserve Bank and Productivity Commission all employ staff who try valiantly to represent the ever-changing world in digital terms. In international

[8] Freidrich Hayek, *The Constitution of Liberty*, Chicago University Press, 1960, pp 59-61

parlance these are the economic rationalists but not in Australia where sociologists and other new agers who, without being specific, have, in practice' defined economic rationalism to encompass anybody who recognises the problem of scarcity.

In 1993, three university students, Chris James, Chris Jones and Andrew Norton edited *A Defence of Economic Rationalism*. It brought 26 so-called economic rationalists, from an ex-Secretary to the Treasury to a Minister of the Uniting Church, between one set of covers. I wrote a foreword directed to its Australian usage. I said:

> [Economic rationalists'] most apparent unifying theme is opposition to privilege. Economic rationalism is about facing up to things: such things as that no one within or outside Australia owes us, individually and as a nation, any favours; that special privileges for one group means deprivation for another; that conventional economics is crucial for national health. It involves facing up to past errors. If only the Old Wool Corporation had accepted that raising prices increased production and decreased demand, if only the textile and car industries had had to face international competition, if only enterprises could now negotiate their own working arrangements, and so on, we would not be in the present mess.[9]

Although dry prescriptions have been championed disproportionately by economists, and dry issues have been disproportionately economic, only the foolish and the disingenuous pretend that the dry ideal draws its sustenance from supply and demand curves. The book *Australia at the Crossroads*, written by five Australian classical liberals (four of whom were economists) was important to the development of dry ideas in Australia and is discussed later. To emphasise the point, its authors employed the following quotation:

> The force that drives the image of the future is only in part rational and intellectual; in much larger part it is emotional, aesthetic and spiritual. The appeal of the image lies in its picture of a radically different world in other time. It is above all the spiritual nature of the ideals embodied in an image of the future that gives them power…. The primary forces in history are not propelled by a system of production, nor by industrial or military might, but rather by the underlying ideas, ideals, values and norms that manage to achieve mass appeal …[10]

Professor Ian Harper, writing for the Centre for Independent Studies,[11] distinguished economic rationalism from *laissez-faire* economics and from materialism:

> Economic rationalism is not the proposition that unfettered market forces should be the sole determinant of resource allocation in an economy. This is *laissez faire* economics. Allowing market forces alone [within an appropriate legal framework to define and enforce property rights] to guide resource allocation can also be rational but not always. It is well known that the free market fails to allocate resources efficiently in certain well-defined circumstances such as, for example,

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[9] James, Jones and Norton editors, *A Defence of Economic Rationalism,* Allen & Unwin, 1993

[10] Kasper et al, *Australia at the Crossroads*, Harcourt Brace Jovanovich Group, 1980, p89

[11] Ian Harper, *Economic Rationalism: The Economist's View of the World* from Economics and Ethics: The Dispute and the Dialogue, CIS Occasional Papers 71, 1999.

when there is a monopoly seller. In such circumstances, *laissez faire* may be decidedly irrational.

Confusion of economic rationalism with *laissez faire* economics is common, especially amongst those critical of the drift of recent economic policy…. In a paper produced by one official church justice organisation, for instance, it said of economic rationalism:

> This kind of thinking often assumes that individuals should be given complete freedom to pursue their own material wellbeing, as everybody is responsible for events and outcomes in their own lives. It also regards the freedom of the market as sacrosanct, minimising society's role in regulating it, and taxation's function in redistributing wealth and meeting welfare needs. (Secretariat of the Bishops' Committee 1992: 12)

The proper target of the Secretariat's ire is *laissez faire* economics with its emphasis on the free market and minimal Government intervention – *not* economic rationalism.

As will been seen from later discussion of the policies they actually recommended, Dries were not advocating *laissez faire* economics. In practice, as the Dries concerned themselves with practical improvements to current Government policy, questions that might involve the choice of *laissez faire* barely arose. The issues for Dries were always whether market failure or Government failure presented the bigger problems in particular cases.

Harper goes on to discuss the charge that material matters, ignoring the spiritual, aesthetic, communal, psychological and moral, dominate economic rationalists:

> Rationalist economics … is concerned narrowly, indeed exclusively, with the material dimensions of a policy problem. This is the proper scope of the discipline. But economic rationalism nowhere advocates that *only* the material dimensions of a problem are relevant to its satisfactory solution. Concentrating on the narrowly economic dimensions of an issue makes good economics but bad public policy. This seems such an obvious point to make that economists simply take it for granted.
>
> It is clearly irrational to argue that all that matters for the welfare of human beings is the satisfaction of their material wants. Evidence, let alone logic, suggests strongly to the contrary. Satisfaction of material wants is not an antidote for loneliness, low self-esteem or anomie. Economic rationalists do not claim that material well-being is sufficient for human fulfilment in this life….
>
> The focus on material welfare circumscribes the scope of economics. Economic rationalism, by construction, ignores non-material dimensions of human welfare…. Investigation of such matters is left to philosophy, theology, cosmology and the like.

The people who are the focus of this account pursued values such as freedom, security, justice, equity and liveable environment irrespective of the contribution of these to material welfare. Hence the need for a word, such as ‘dry’.

Michael Pusey criticises economic rationalists for sharing orthodoxy. They do. Treasury, the Reserve Bank, the Productivity Commission, the International Monetary Fund, the World Bank, the OECD, the Bank of International Settlements and most trained economists advocate policies with only modest differences. Dries are very much within the economic mainstream. They argue that Governments that ignore experts who more or less agree are not innovative but irresponsible.

Property

Human rights or civil liberties discussed in terms of negative rights (‘freedom from’ rather than ‘freedom to’) influenced dry thinking and were employed in dry rhetoric. Dries were, however, more careful than many to avoid declaring the existence of rights without specifying upon whom or what the attendant obligations fell.

Even the fundamental civil liberties – freedom of person, property, speech, ideas and association – are qualified in all societies. They are, however, cautionary signposts warning against dangerous policy and Dries employed them to that end. There is no better statement of them, even today, than the *Déclaration des Droits de l’Homme et du Citoyon* adopted by the self-styled National Assembly in Paris on 26 August 1789. Words alone, however, guarantee nothing. Their codification failed to prevent the subsequent horrors of the French revolution just as their excellent expression in the Constitution of the USSR failed to prevent political murder on a scale even greater than the French revolution.

In Australia, where the rights of freedom of person, speech, ideas and association are mostly respected, Dries find themselves most often in conflict with the authorities over the right to enjoy property. Dries also, particularly in the 1990s, defended the right of free speech and free association.

The *Déclaration des Droits de l’Homme et du Citoyon* declares:

> Property being an inviolable and sacred right, no one may be deprived of it except as required by evident and legally ascertained public necessity, and on condition of previous just compensation.

Few Dries believe that property is ‘inviolable and sacred’ but they accept the rest of what the *Déclaration* had to say on the subject. They accept without reservation the less grandiloquent United Nations’ *Universal Declaration of Human Rights* version:

> No one shall be arbitrarily deprived of his property.

Property rights were not invented but evolved over a long time by trial and error. Property is, perhaps, best understood as a limited bundle of rights. A farmer, for instance, may hold rights to cultivate, treat with herbicide, graze, build homes upon, mortgage, sell etc a defined area of land. He may not in Western Australia, however, sub-divide, lay claim to the minerals, or build a nuclear power plant upon it. The principal modern problem is not the outright expropriation of the whole property but the excision of individual rights by regulation.

These rights are the foundation of a store of private wealth. When somebody buys or leases, say, a farm he places his savings in the rights that he believes the land title guarantees. He could instead have chosen a superannuation policy. If a key right, such as the right to cultivate, clear trees or conserve water, were subsequently to be expropriated, then serious injustice would be done to him as it would be if the owner of a superannuation policy were denied access to part of its benefits.

Private property is a necessary condition of market exchange and thereby of the means by which high-valued outputs are derived from low-valued inputs. When properly respected and protected, it is also the means by which capital is mobilised for the productive activity that first in Western Europe, then North America and most recently South and East Asia, lifted hundreds of millions of people from poverty.[12]

The Australian Constitution restricts the Commonwealth Government from taking private property except on just terms, but the States are not so constrained and the takings clause has not always been applied by the courts to the taking of part of the value by restricting uses of property. In the names of planning, environmental amenity and industry regulation, Governments sometimes expropriate individual private property rights without compensating owners. For instance, in some States no compensation is contemplated where farmers are denied the right to clear their land, a practice that most punishes those who have preserved most native vegetation. Other examples abound, affecting, as well as farmers, city and rural dwellers, miners, fishermen and foresters and many others. In other circumstances, such as when existing building rights are taken under town planning schemes, compensation is routinely paid.

Of course, property owners should not expect windfall gains from, say, changes to land zoning laws conferring new rights. They should pay for these.

Dries defend the principle that savings will not be expropriated except by taxes that apply with equal (or rationally graduated) force to everybody. It follows that the Crown may compel owners of private property rights to part with them but not without paying full and prompt compensation.

The free enterprise market system depends utterly upon security of tenure. Faced with the risk that a Government may change the rules adversely, potential investors demand higher returns to compensate for the ‘sovereign risk’. Thus projects that would be undertaken in countries where owners’ rights are secure may not be viable where they are not.

Private property also has a political and ethical dimension. To a significant degree it stands between people and an overweening state. The several rights mark a private domain – an area from which the state is excluded. Rulers resent private property because it is from within that domain that resistance to the state – in the courts and ballot boxes or by revolution – can most easily be organised and financed. And, at least since *Magna Carta,* the rights have been defended. At the extreme, people who are not permitted to own the fruits of their own labour are, in effect, slaves. Without

[12] Hernado de Soto, *The Mystery of Capital,* Bantam Press, 2000

secure private property rights the liberal, democratic, capitalist society is impossible because there is then no possibility of voluntary exchange, no market prices and no objective measure of value.

Remakably, in Australia, labour market laws take from the most basic property, that which a person has in his own labour. The 17th Century moral philosopher, John Locke, wrote, '...every person has a property in his own person. This, nobody has any right to but himself. The labour of his body and the work of his hands, we may say, are properly his.' His argument is the basis of our objection to slavery and to conscription. What is more, property in one's own person is most important to those people who have nothing else to exchange but the work of their hands. The industrial awards and picket lines that deny people the right to sell the property they have in their own labour are surely affronts to civil liberty.

Discrimination

Dries tend to have little faith in laws banning private acts of racial and sexual discrimination or in those mandating positive discrimination that of course always discriminates against the excluded parties. The opposition of some of them to anti- and positive-discrimination legislation has caused them to be characterised as racist and sexist. The characterisation is unfair.

Dries opposed anti-discrimination legislation that was unrealistic in its objectives and which curtailed the private right of choice. Private citizens are not in the same position of trust with comprehensive powers to coerce as are Governments and, therefore, should be permitted to discriminate in circumstances where Governments may not. They are controlled by competition. Laws intended to improve the bargaining positions of women and minorities by restricting the hiring and trading choices of individuals merely replaced the discrimination of one who may discriminate with the discrimination of a body that ought not. Anomalies are thereby created that cause resentment.

Dries accept the strong evidence of many circumstances in many countries that:

> The non-discriminatory protection of economic freedom is … important for the economically weak, the young, and the low-income earners; those not born with silver spoons in their mouths. [These] do not have the resources to lobby Governments against infringements of their life opportunities.[13]

Positive discrimination under Australian multiculturalism policy makes the same mistake that the South Africans made with apartheid. To object to Australia's form of multiculturalism is not to imply that cultural diversity is valueless – on the contrary Dries value it. The objection is that the Government has with subsidies created favoured classes of people that include many who are not poor or otherwise, on balance, disadvantaged and who, as we all would, use the favour to gain further advantages. There is no dry objection to the Government addressing individuals' language difficulties or other disadvantages. Multiculturalism illustrates an important principle, but it is not by any means an isolated example of multi-Australianism. Many laws needlessly discriminate, reserving occupations to licensed (rather than merely certified) individuals or members of associations or unions and subsidising

[13] W Kasper, *Building Prosperity*, CIS, 2000, p 106

some occupations, lifestyles and places of residency while taxing others. Some of this discrimination may be justified if it reduces transaction costs, such as the laws that favour some types of corporate structure over others; or corrects economic failure, such as subsidising those forms of research that yield knowledge that must in its nature be in the public domain. However, most is not. The right to discriminate is the civil liberty of choice and usually belongs in the private domain.

The economic role of Government and its limits

Dries have often said of themselves that they oppose 'big Government'. It is not, however, an easily quantified term. The percentage of aggregate demand that passed through the Commonwealth, State and Local Government budgets was 18.5% in 1950-51, 21.4% in 1970-71 and over 40% in 1996. These are, however, but partial measures of the extent of Government. If, before the Hawke-Keating trade reforms, the 'tax' then paid by consumers to protected producers were included with other taxes to assess the size of Australian Government, we would say that Government occupied about 50% rather than about 40% of the economy. We would, moreover, still be saying nothing about occupational licensing, building codes, statutory monopolies or restriction of personal behaviour. Despite these difficulties, long before the dry revolution began there was more than sufficient evidence that relative living standards had fallen in countries where Governments had attempted to control their economies in greatest detail. North and South Korea, and East and West Germany offered extreme contrasts: Western Europe and the United States, and the Canadian and US examples offered contrasts that were less so.

And we also knew that where Governments did not guarantee even life, liberty and property, absolute living standards became so low that famine was endemic, as in several countries in sub-Saharan Africa. Life was, as Hobbes predicted, nasty and short. Dries were faced with distinguishing between appropriate and inappropriate Government, especially in the economic sphere.

Dries were not intellectual mavericks; they rarely departed from orthodoxy. They did not try to overturn economic theory but often found themselves in opposition to people who denied such fundamental economic principles as opportunity cost and comparative advantage. Even more fundamentally, they accepted arithmetic even though politicians right up to Cabinet level sometimes found it too irksome. They chose their data from conventional sources such as the Australian Bureau of Statistics and when other considerations were more or less equal they accepted opinion emanating from official sources with good track records, such as Treasury and the Reserve Bank. The Parliamentary Dries therefore tended to back, say, Treasury on the occasions that they learned of differences of opinion between it and Cabinet, but rarely did not support the Cabinet when it was faced with opposition from businesses, unions and their more populist backbench colleagues.

Parliamentary Dries and those outside the Parliament, however, often found themselves, particularly before 1983, in fairly lonely opposition to Government in disputes over economic freedom. Action by collective agreement is limited to measures supported by established opinions. That is, it can choose between already-recognised possibilities, but is hopelessly poor at discovering new possibilities. Markets, in contrast, allow novelties to be tested. For this reason, even more than their ability to allocate given resources efficiently among known ends and their ability to

avoid political corruption (of which more below), other things being equal, Dries prefer voluntary market exchange to regulation. Markets are by far the most effective discovery mechanism for human wants and resources.

Other things are not, however, always equal and in practice the choice that Dries most often make is between markets that they know are imperfect and regulations that they also know or suspect are even more imperfect. Serious market imperfections provide sufficient reason for imperfect Governments to intervene. Governments should, for instance, ration common property, such as wild fish stocks, and finance the provision of true public goods, such as defence and streetlights. Anyone who did not accept the limits of markets would not meet the most basic test of dryness, namely, willingness to face facts. The failures that most earned the Dries' wrath were those that Governments themselves caused – Government failure.

Even where Governments should intervene, however, Dries prefer as much room for competition as the circumstances will allow. The Government-financed services are often most efficiently provided when Governments contract competitive providers. Further, public goods, like private goods, should yield benefits that exceed their costs and Dries have often questioned expenditures such as those required to build the new and permanent Parliament House in Canberra.

History offers ample reasons for these dry approaches. The miraculous economic recoveries of post-war Germany, Japan and Italy followed 'bonfires of regulations'. In contrast, post-war Britain attempted to set up an almost all-embracing system of state control and entered an 'Age of Austerity', the 'Attlee – Churchill Terror'. In an extreme irony of role reversals, the victorious British condemned themselves to grey, rationed lives, to lousy education, to resentful hopelessness; while beaten, ruined, occupied West Germany, where Government and many associated institutions were utterly discredited, staged an economic miracle. It was only as German regulation reasserted itself that that the miracle slowed, and when Britain experienced Thatcher that British living standards started to catch up.

In the early 1950s Australia had been among the richest nations on earth. By the late 1970s, it was some 20% below European living standards. We had experienced high levels of regulation of trade, labour, transport and agriculture and high levels of public ownership of utilities offering services from wheat handling to electricity generation. Government had played a major role in the provision of education, health care and transport. In every sector the state instrumentalities enjoyed protection from competition, in many cases outright monopoly. Economic theory encouraged the expectation that such circumstances would be associated with excessive costs, poor productivity, poor economic growth and capture by organised workers but, had not theory been so conspicuously borne out by events, then there would never have been the need for a dry campaign.

A wealth of experience from all over the world suggests that imperfect markets usually cater to human wants better than do imperfect regulations. Dries, nevertheless, contend merely that on average, at the margin, most people will be better served by more voluntarism and less coercion. They go further only in claiming that the potential gains are large.

Markets fail when the cost of discovery, transfer, contract enforcement and debt collection – the transaction cost – exceeds the potential shared benefits. Before replacing markets with their own dictates, however, Governments should explore what they might do to minimise transaction costs by making the relevant property rights clear, enforceable and transactable; by removing unnecessary regulatory inhibitions; cutting compliance costs; and assisting to police contracts by the provision of a low-cost and efficient legal system.

Transaction costs may also sometimes be reduced by imposing standards that save everyone the costs of repeated inquiry; by taxing to finance public goods or near public goods; and by outlawing anti-competitive behaviour. The companies' code and various safety laws are examples of the first; defence of the second; and trade practices law of the third. These measures enhance trust but where a Government should start and stop regulating to make markets work better is not always clear and, no doubt for that reason, Dries have tended to steer clear of genuine public goods, genuine prudential issues and trade practices law. Their attention has been occupied with matters less readily disputed.

Regulations are unfair if they do not apply equally to everybody. They should be simple lest the compliance costs become worse than the market failure they seek to correct. They should be enforceable or avoidance will be common. They should be certain and stable or people will suffer loss unjustly, either from the punitive provisions of the law or from lost rights. These considerations are well known but they do not prevent politicians from imposing unwise regulations and then imposing more unwise regulations to correct the unforeseen effects of the first.

Dries who are criticised for their faith in markets marvel at the faith that others have in politicians and civil servants. What is not achieved voluntarily is done by command, of which the only legitimate source is the Government by processes that are costly to enforce and monitor. And Government too is fallible.

Dries and the New Class

Dries have had generally unhappy relationships with what Katherine Betts, a sociologist at Swinburn University of Technology, called 'the cosmopolitan new class'. She defined these as 'those who work in the knowledge industries, and who dominate universities, the media, public policy, education and the arts' and who hold values that conflict with those of the majority of Australians.[14]

Dries do not hold that lifestyles or whole cultures are equally good. Some culturally-endowed habits have undoubtedly enabled the people who practice them to enjoy lives that are longer, more comfortable, apparently happier and more likely to be appreciated by those about them, than have others. The new class, however, has tended to belittle institutions such personal thrift, responsibility, fidelity and effort. It has denigrated families. These are the very institutions upon which Dries believe social order depends. It also tends to defend some privileges, such as subsidies for the arts and child care for wealthy parents that Dries feel are unfair to those forced to pay for them.

[14] Katherine Betts, *People and Place*, vol 7, no 4,

It would indeed be surprising if any culture were so superior that its adherents had nothing to learn from any other or one so inferior that it had nothing to teach. Cultural isolationism is therefore as stupid as it is objectionable. We have, however, some people asserting not just the worth to be found in all cultures but talking of cultural traits as though they are of equal worth. These are often the same people who, ignoring their own inconsistency, favour policies such as Australian content rules for TV and the 'protection' of Aborigines from European influences. All cultures develop as they come in contact with other cultures and to deny any Australian the right to choose his beliefs and customs is arrogant paternalism.

Like Voltaire, Dries may disapprove of what you say but will defend your right to say it. (Not 'to the death', however!) They, therefore, have fallen out mightily with the new class over political correctness. Gratuitous insult is objectionable but, if opinion is to progress and there is to be any limit upon the arrogance of governing elites, people must be able to express opinions that other people believe to be wrong.

Dries are as offended as anybody by people who employ race in disparagement but people who have not had their powers of observation destroyed at a university will never believe that the several races are equal in their average abilities.[15] However, if following Locke we respect individuals, what is the relevance of averages? Even if we feel no obligation to individual people as people – as we should – racial categories are so variable that so little can be learned about an individual's abilities or virtues by reference to them that the uses to which they can legitimately be put are very limited. The case for racial tolerance is unassailable but to base it upon a fallacy is to give the bigots an unnecessary advantage. Similar observations apply to differences of sex and social class.

The cosmopolitan new class, more pejoratively the 'chattering class', does not like us!

The Social Welfare System

Who would not want every Australian, especially every Australian child, to enjoy a decent minimum living standard? Voters charge their Governments with ensuring that they at least have access to one. However, as the last quarter century progressed, the failures of the welfare state became increasingly evident. To pretend that it was functioning well or only needed more money was dripping wet, but Dries' most commonly employed criteria, justice and efficiency, were insufficient to asses welfare policy. Those who fall by life's wayside should be picked up even when they are the architects of their own miseries, not because that is the efficient thing to do (which it may be) or just thing to do but because to do so is decent. The Government is, of course, not necessarily the most efficient instrument to do the picking up. The 1980s were well advanced before Dries had access to much relevant analysis and even by 2000 this could not advise them with certainty approaching that of economic theory. It is, however, the human condition to work with the tools to hand.

The welfare of the common man in every known society has varied most with the economy. Nevertheless, even in the strongest economies people do fall by the

[15] See Richard Herrnstein and Charles Murray, *The Bell Curve,* Free Press, 1994 and think of heavy-weight boxers and weight lifters. I await the person who chooses to quote part of this paragraph/sentence out of context.

wayside. Australians want an effective redistributional welfare system and Dries share that goal. The task is to make it effective: to keep the system of production on which the welfare effort is dependent healthy, and to implement the welfare system that best helps those most in need.

Welfare payments change incentives and no good comes of pretending that they do not. The number of people drawing sickness benefit doubled during the seventies. The number drawing single parents' benefit trebled during the eighties. Taxation reduces incentives to produce, diverts effort to tax avoidance, has a high compliance cost and has a not inconsiderable administration cost. Access to welfare reduces incentives to produce and to save among at least the more well to do.

The growth of second- and third-generation welfare dependency and the high incidence of anti-social and self-destructive behaviour among a growing welfare-dependent underclass concerned Dries increasingly. The welfare system was plainly not achieving its intended outcomes and, arguably, it was increasing the very problems it was intended to alleviate. Toward 2000, Dries, by then better equipped with data and theory, tried to address the cultural causes of welfare dependency – to find ways of giving help without undermining the institutions upon which social living depends.

Environmentalism

Nobody says development should be not be sustainable. The disputes that bring Dries into conflict with some Green activists are about how environmental sustainability should be achieved when environmental goals must be traded off against other ends such as freedom, prosperity and security. Differences are exacerbated by Dries' suspicions that environmentalism has been co-opted as a stalking horse for a new coercive collectivism that has nothing to do with environmental conservatism.

In most circumstances democratic capitalism and private ownership are good for the environment. People look after what they own – compare private homes with public housing estates; compare Switzerland with what was the Soviet bloc. Only the economically-strong capitalist nations have been able to afford to preserve and improve their physical environments. Greens, however, tend to disparage private ownership and capitalism. Dries' quarrel with the so-called Deep Greens is not with their professed goal but with their hypocrisy.

What is more, apocalyptic forecasts that have failed to eventuate discredit a good cause. One such forecast should, given its high standing, make the point. During Jimmy Carter's last year in office he commissioned a Government report, *Global 2000*. It predicted many calamities such as real oil prices rising by 150% from 1975 to 2000, that is, to US$80-$100 a barrel. Today they are under US$30 a barrel. It predicted more hunger with a '100% real increase in food prices by 2000'. In fact, world food production per capita has risen by roughly 25% since the mid-1970s and real food prices have fallen by about 50%.

The prominent environmental doomsayer Paul Ehrlich told British biologists in 1970:

> If I were a gambler, I would take even money that England will not exist in the year 2000.

This inspired the economist, Julian Simon, to issue a challenge:

> This is a public offer to stake $10,000 in separate transactions of $1,000 or $100 each, on my belief that the cost of non-Government-controlled raw materials (including grain and oil) will not rise in the long run. If you will pay me the current market price of $1000 or $100 worth of any standard mineral or other extractive product you name, and specify any date more than a year away, I will contract to pay you the then market price of the material.

Ehrlich accepted the offer nominating $200 each of copper, nickel, tin, chromium and tungsten (only $1,000 in all) for ten years hence. In October 1990 he posted Simon a cheque for $576.07. The economist was right and Erhlich who spoke for many of the science lobby wrong! Scientists who are not prepared to get across even basic economics don't deserve to be taken seriously on many of the issues about which they declaim most loudly.

Doomsayers have not, like the boy who cried, 'Wolf!' sought mere attention but have sought the powers that only crises can justify. The fates of Jews, Huguenots, alleged Communists and others testify to the potential misuse of scaremongering. When faced with dire predictions, Dries, therefore, tend to be not only sceptical but also fearful of the political use to which the alleged crises might be put.

Few Dries are qualified to distinguish between good and bad science. In the case of the global warming forecast, they have been content to estimate the economic costs of various proposals, to note that scientists are not of one mind as to whether the world is getting much warmer and to wonder aloud whether a warmer world is a good or a bad thing.

Dries are tired of nonsensical premises and the unexplained trend breaks. They are tired of the preservation, repair and enhancement of the physical environment being presented as an end that overrides all other ends. The physical environment is important but so too are rising living standards with full employment; preservation, repair and enhancement of the social and political environments; and national security. These are ends that will inevitably and rightly be traded off against environmental goals, but traded off against, not over-ridden by. Excessive debt may well do our children more injury than excessive logging. When attempting to avoid both, some trade off may be required. Then again it may not, but the issue cannot be settled *a priori*.

People should not get away with exaggerating 'in a good cause'. Scare-mongering about environmental or for that matter economic dangers serves only to cause necessary trade off to be sub-optimal and discredits genuine concerns. There is in every case a means as well as a level of environmental protection that will best serve the interests of future generations.

Political Corruption

The most serious problem with power is not, as Hayek taught us, that no one could assemble the information needed to use it wisely, but rather, as Acton and Pitt taught us, that it corrupts. During the 1980s Australians experienced a level of public scandal far exceeding that to which they were accustomed. Dries were faced with defining authority's misuse.

The ex Marxist, Jean-François Revel, discussed political corruption in these terms:

> In a civilised efficiently alert democracy, you have to be a fool to commit the major felonies punishable by the law: breach of trust, peculation, embezzlement, influence peddling. So in order to gauge the extent of corruption in our own kinds of liberal society, we need to look beyond the classic offences.
>
> Being 'corrupt' means somehow misapplying political or administrative power, whether directly or indirectly, outside its proper sphere, for one's own financial or material advantage or in order to distribute the gains among one's friends, colleagues, relations, or supporters. When a minister grants a subvention to an association of dubious utility, even when he observes all the rules in doing so, he is committing an abuse, especially if it turns out that the beneficiaries of the subvention are his personal or political friends. A subvention of a million Francs, for example, is the equivalent of a year's profits for a thriving business. Multiplied by some thousands of instances (and by sums mostly very much greater), this act amounts to a levy imposed on the labours of the producers, in favour of the occupants of the power structure. The further the system extends, the heavier the hidden tax on production and the less profit and employment. Even if legal appearances are saved in these transactions, it may be assumed that democracy is not. The national inheritance is diverted into private or partisan uses, causing a pernicious drain on the general economy. No doubt the good Minister who performs this little service for his henchmen has no sense of being dishonest – and that is the most serious thing about it....the greater the role of the State the more numerous the opportunities for corruption.[16]

Revel goes well beyond brown-paper bags full of $100 notes. The company director who trades his company's shares to the detriment of other shareholders is undoubtedly corrupt, but the same director who knowingly uses misinformation or an unwarranted dividend to achieve re-election does more damage to his organisation. So it is with political corruption. Minor peculation is not the problem. Most politicians are, if not too honest, then too smart for that. The real problems arise from misuse of otherwise legitimate powers.

Authority may be employed legitimately only on behalf of the people from whom it is derived. However, its legitimate employment (not necessarily its judicious or efficient employment) goes beyond the production of public goods to include private goods such as pensions. It seems that, although used for private ends, the powers sometimes derive legitimacy from public knowledge and majority approval. If a politician speaks frankly about his actions, that is, he eschews 'spin', then he is probably not acting corruptly.

That test is, however, difficult to apply and proper use of public authority is limited by due process – ends cannot justify means. Governments must, for instance, govern by pre-existing law, duly enacted and duly enforced. Government by wink, nod and handshake is corrupt Government and executive discretion is bad Government, even when the ends are worthy.

In politics, as in business, however, by no means every strand of due process is codified. The Minister who deceives Parliament by deliberate and significant

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[16] Jean Francois Revel, *Encounter*, March 1987

omission is hardly observing those processes that most people think are due. Protestations by Ministers that they 'did nothing unlawful' or are 'innocent until proven guilty' should not be accepted as defences against mere demotion. The parallel with company directors and executives facing dismissal for poor judgement is obvious. To require Ministers to stand down because they own a few shares in a company doing business with their Department but to approve a Minister who directs benefits to a marginal seat is hypocritical.

As much as when he receives a cash bribe, a politician receives 'material advantage' when he receives votes, enjoys a quiet life, or avoids dishonour. It is difficult to distinguish between buying votes and relaying voters' preferences, and the democratic system is for good reason designed to reduce the distance that leaders may depart from voters' preferences. Nevertheless, politicians ought to be constrained by the obligation to govern only by rules that apply even-handedly to everybody. Favouritism that is of the very nature of commerce, where customers and staff are protected by their ability to walk away, in politics, where citizens cannot walk away, is corruption.

The public's best insurance against misuse of authority is timely knowledge of what is actually being done. Taxpayers, however, sometimes find themselves financing the smoke screens that keep them misinformed. Matters of national security aside, Governments should have no secrets from their own citizens. Yet, for political advantage, the principle is continually honoured in the breach and there is no likelihood that that will cease to be the case. Nevertheless, some discipline may be imposed and to favour parliamentary committee systems, question times, independent auditors-general, a press that is free to sometimes behave irresponsibly, independent judiciaries and so on is, therefore, dry.

All civilisations have much the same codes that protect life, limb, property, truth, trust, contract, children, the sick and elderly, and they all oblige the citizen to defend the society. The observance of these moral rules allows people who do not know each other to combine, to cooperate and to raise successive generations of civilised citizens. Dries appreciate that it is because of these more than the law that bridges are built, penicillin was discovered, and living standards have reached unprecedented levels. But, in the liberal tradition, they tend to question the Government's ability to define let alone enforce truthfulness, courage, generosity and prudence and they question the wisdom of offering people a surrogate for personal moral responsibility. They suspect that increasing regulation actually opens opportunities for the unscrupulous to gain unfair advantages. What is legal is not necessarily moral, but these days moral judgement is often suspended by people taking advantage of legal loopholes.

Australia should be a nation of equal citizens. That is not quite to say that Governments should treat everybody equally. Governments favour the old (pensions), the sick (hospital funding), the poor (unemployment benefits) and the young (taxpayer-funded education). These policies could be wrong, but Governments feel no need to invent phoney justifications for them. I suggest this is because in their non-exclusion they fall well short of distributing gains among friends, colleagues, relations, or supporters. That is not, however, the case where favours are granted to particular industries (tariffs, import quotas and subsidies), professions (occupational

licenses and closed shops), races and cultures (ethnic funding) and geographic regions (tariffs again, redistributive federalism via the Grants Commission and infrastructure allocated by weird notions of priority).

If a politician of my acquaintance has accepted a personal bribe, it has not come to my ears. Australian politicians sometimes 'sell' privileges for campaign support in cash and kind but neither is that form of corruption a major problem. The systemic rottenness is caused by exchanges of privileges first for the blocks of votes that many political lobbies can deliver and second for freedom from the politically-damaging lies that will be heaped upon the Government if it refuses the privilege. Governments can buy-off vested interests whenever those Australians who must bear the cost (such as purchasers of cars and clothing) are too dispersed to run a counter campaign. And they do. So it is that Australian politicians break their trust with all Australians and, employing the term reasonably, Australian politics is corrupted.

The market is the consumers' democracy. However, because they are many and dispersed they cannot organise as readily as can producers giving rise to a 'supplier bias'. That concentrated interests can so readily prevail over dispersed interests is the bane of democratic politics. They prevail because only they have enough at stake to let the one issue influence their vote or cover the cost of mounting a political campaign. Only an example can make the point adequately. Consider the relatively straightforward instance of a tariff such as that on textiles. It may transfer $1 billion per year from 17 million consumers to, say, 100,000 producers organised in 100 companies. Each consumer has $59 per year at stake; each family about $200; each worker $10,000 and each company $10 million. It is relatively simple for the unions and employers to organise to make life difficult for a Government. Enforced transfers such as are made via tariffs involve dead-weight losses that any Government mindful of national living standards would wish to avoid, but only the concentrated interests can deny it votes. It is impossible for the consumers to do so. The whole unsatisfactory process is explained by 'public choice theory'. From about the mid-to-late 1970s Dries were convinced that this offered a powerful explanation of bad Government, but had it not been possible to appeal to 'public interest' there would have been no point in a dry campaign and, indeed, the nation would be ungovernable.

Governments are corrupted whenever they are ruled by private rather than public interests.

In summary

The parliamentary Dries, and those in the civil service, commerce and universities, despite their categorical preference for a train of thinking that can be traced at least as far back as Locke, are not just theorists and idealists. They are for the most part men and women of affairs pursuing better Government by the means available to them. They concern themselves with politically and administratively achievable steps in a process that, if it has an end, is one that cannot be foreseen. The cloistered academic social theorist, although he might be informing and inspiring Dries, is not normally referred to as 'a Dry'. Dries might enjoy deep and meaningful debates about Hayek's inability to define the limits of the state and try to unravel countless prisoner's dilemmas over the odd glass of red but those are not the habits that define them. Yet without the guidance of a philosophy they would not be Dries.

A capitalist economy will not deliver prosperity nor a society opportunity, security and justice unless basic institutional underpinnings are maintained. A captive or over-extended Government is not a strong one. The Government advocated by Dries would be more limited than that to which we are accustomed. Sticking to its essential protective functions, it would find it easier to adhere to principles that avoided 'corruption' as I have defined that. It would be able to say 'no' to vested interests.

Concentrating on procedural justice it would not grant privileges such as industry protection. It would respect tried and proven institutions such as private property rights, independent courts, the parliament, the federal structure and families. It would offer Government welfare to those who are least able to provide for themselves but expect others to provide for themselves and their families. That is, it would combat absolute poverty. It would not intrude unduly upon people's private domains. It would face inconvenient facts.

Dries may be identified by their efforts to bring impartiality to law making and administration by Governments and Parliaments that is comparable with the impartiality that the courts bring to the law's interpretation. They, however, advocate a way not a destination.

Chapter 2
From Chifley to Whitlam

The art of politics is to convey ideas to others, if possible, to persuade a majority to agree, to create or encourage a public opinion so soundly based that it endures and is not blown aside by chance winds: to persuade people to take long-range views.
R.G. Menzies in 'The Measure of the Years'

The spirit of the 50s and 60s
The liberal democracies were on the winning side, but for liberal democracy itself the Second World War, with much expansion of central planning, meant a setback for liberalism. Not even totalitarianism, let alone illiberal Government, ended with the defeat of Fascism. By 1950, half of the world's population was governed in the name of Communism and, to a greater or lesser degree, socialism and a facilitating doctrine, neo-Keynesianism, determined the style of Government in nearly all of the rest. ('Neo-Keynesianism' because Keynes who died in 1946 would not have approved of much that was later called Keynesian.) Socialism/neo-Keynesianism so dominated academic life that intellectuals who did not accept its tenets found advancement within most Anglo-Saxon universities difficult. Titles on bookshelves even in the 1980s showed that post-war socialist writing was of the order of twenty times more prolific than liberal.

People everywhere had faith in authority that today most believe unwarranted. Except in the United States, the limited Government tradition seemed barely relevant. During the war, soldiers' education units had pushed socialism. It was quipped in the UK that the 1945 election was the British Army Education Unit's only battle honour. Survivors of the war, both soldiers and civilians, had been led to expect rewards – housing, education and social security – which it seemed then that only Governments could deliver. Much of the intellectual opposition to communism – in Australia, from BA Santamaria, Frank Knopfelmacher, Richard Krigier and the Association for Cultural Freedom – was, at least initially, social democratic in spirit rather than free enterprise.

In Britain and on the European Continent whole industries had been nationalised with the high hope that, by eliminating profit, goods would be less expensive and supply more reliable. The nationalised industries, denied new investment and soon dominated by trade unions, were locked into pre-war production methods and wracked by repeated industrial disputes. They were soon failing to supply the economical coal, steel, transport etc that were their *raisons d'être,* indeed for extended periods were failing to supply the goods and services at all. Looking back, it is evident that as early as the 1950s the social democrat experiment was not working but it still had far to run. Even in the US, the reach of the state was extending and the discretion left to individuals regulated away.

It seemed not permissible to ask who was to guard the guardians. If Big Brother was not to be trusted what was the feasible alternative? It was widely assumed that once a Government had 'given' the public a 'benefit' that it could not take it away. Many measures that might have been taken to achieve efficiency or justice were thought 'politically impossible'.

The 1960s and 1970s were an era of personality cults. Sir Charles Court, Gough Whitlam, Don Dunstan and Sir Joh Bjelke-Petersen enjoyed worshipful followings. They had the reputations of 'leaders' but seldom advocated anything unpopular – they followed rather than changed public opinion. It seemed much the same the Western world over, even though respect for authority among large minorities almost vanished.

The *zeitgeist* of the 1950s and early 1960s was collectivist and more, it was authoritarian. Rather than pay what was necessary to recruit an army to fight in Vietnam, the Governments of the US and Australia conscripted young men to its service. The exercise of authority, however, as often as not reflected moral weakness. It was tyranny of the majority or of a dominant but fearful minority as in South Africa. It could not and should not have lasted. The American civil rights movement was to influence Australian Dries, as to a lesser extent did the South African anti-apartheid campaign. Although they were, with no exception that I am aware of, sympathetic to the American civil rights cause, some and perhaps most of the people who were later to be identified as Dries had been equivocal about South Africa. This was not because they approved of racial discrimination but because, at the height of the Cold War, they feared that majority rule would result in a Communist State and because elsewhere in sub-Saharan Africa majority rule had too often been followed by wholesale murder. They were fortunate that the dilemma posed by South Africa was not closer to home.

Throughout the Western world Government had expanded primarily through the public provision of health and welfare services and the regulation and ownership of commercial activity. In Australia's case this was on top of an unusual amount of state-owned enterprise dating from the colonies' origins as British prisons and socialist enthusiasms of the first half of the Century. Australia had an unusually highly-protected manufacturing industry. The 1929 Brigden Report had concluded, probably wrongly, that the tariff had allowed Australia to maintain a larger population than would otherwise have been the case. That belief persisted until the 1980s. The Report's warnings about the excessive cost of protection upon export industries, however, were almost immediately put aside during the Great Depression and did not much influence public policy, also until the 1980s.

Australia's collectivism was essentially democratic-socialist – that is a high level of control of economic activity exercised by democratically-elected Governments. However, since shortly after Federation, there was within it a significant corporatist element. By this the elected Governments shared their authority and responsibility with the elites of the best-organised and strongest sectional interests, the union movement and industry. Corporatism had enjoyed popularity at a theoretical level in the twenties and thirties and had been adopted by the Axis powers. After the War it lived on in practice in many places outside the communist bloc, although seldom in name.

With hindsight the 1960s and 1970s seem surreal but at the time they seemed inevitable and irreversible. What were Court and Bjelke-Petersen doing leading parties that claimed to oppose socialism? Did so many Western leaders really believe that they were capable of regulating complex economic and social life in the detail that they attempted? Did they not seriously contemplate the likelihood of their own corruption? At first the belief that the wartime powers could be refined to develop a

democratic-socialist state to avoid the horrors of the great depression had profoundly influenced popular and elite thinking. Even then, however, I do not recall either the union bosses or the industry captains volunteering to allow the state to govern on behalf of the dispossessed – on the contrary, the immediate post-war years were characterised by industrial strife and demands for protection. By the late 1970s, when in Australia socialism and communism were substantially discredited and had retreated to the universities, these major vested interests continued to dominate those of the wider public. Public ownership, the regulation of prices, quantities and qualities of many things from labour to butter fat were the *status quo*. Only a minuscule minority contested the received wisdom in any fundamental way.[17] Certainly people contested collectivism and favouritism where it affected them (wheat marketing in my own case) but those who attempted an assault upon the *zeitgeist* itself were rare indeed.

For two decades, despite a level of industrial disputation that no longer plagues us, the democratic, mildly-socialist state had seemed to work well. During the 1950s and 1960s that part of the world that was democratic and allowed markets to regulate significant parts of their economies had enjoyed unprecedented annual growth of nearly 4%.

The reasons for this sustained period of exceptional growth are disputed. However it was associated with:

- Unprecedented growth in international trade and capital flows.
- Unprecedented transfers of technical and organisational knowledge, some of it tested in war, from the US to other countries.
- New high levels of social mobility in more egalitarian and more widely educated societies.
- Cheap and reliable raw materials.
- The disruption of established vested interests' political networks by the Second World War preventing them from suborning their Governments especially in the defeated Germany and Japan that reaped greater benefits than other nations in catching up to the United States.[18]
- A sustained period of peace (even if it was only because the world lived in dread of nuclear Armageddon).
- Demand management using Keynesian techniques that eventually foundered on inflation.
- The coming together of developments in several leading technologies.
- A certain toughness of the spirit among those who survived the War.
- A shortening of the gestation period for new technologies.
- Confidence and social optimism – these were bad years for doomsayers.

All of this was reflected in a more-or-less-on-schedule upswing in the long wave business cycle.

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[17] Most who were later to be numbered among Australian dries would in the 1950s and 1960s have been familiar with Hayek's *Road to Serfdom* and *Parkinson's Law* but probably little else. Few were as prescient as they would like to have been.

[18] The economist Mancur Olsen, *The Rise and Decline of Nations*, Yale University Press, 1982 was to argue that periods of high economic growth follow when established vested interests lose their influence. He used the Southern States of the US and post-war Japan and Germany as prime examples.

This came to an end in the early 1970s when social changes (new union militancy, attacks on authority and traditional mores) and the first oil crisis compressed profitability and led to cuts in investment and innovation.[19]

Until the lessons of stagnation and inflation (stagflation) were forced upon them, Australians saw Government more as a cure for economic depression than its cause. After ending war-time rationing we did little more to undo past collectivist practices and the seeds of the 1970s stagflation were sown in the 1950s and 1960s. But to dwell on these alone would be to lose historical perspective. Initially, Australia did fairly well avoiding some of what can now be understood to have been economic errors. By comparison with other Governments of the time the Menzies Governments respected the rights of individuals and of sub-national communities from families to States. They did not nationalise major industries, did reduce the public debt left from the war and, after the Korean War wool-boom, controlled inflation. Thus for longer than most countries Australia avoided the economic problems that beset, for instance, Britain.

From 1943 until 1950 when post-war reconstruction was under consideration and the Liberal Party was being built upon the ruins of the UAP, sharper philosophical differences divided the public than at any point since. The Communist Party was then a force to be reckoned with and the Labor Party then believed in nationalisation. From the latter part of the 1950s, however, the Liberal Party-Country Party Coalitions became more interested in office than principles and Labor State Governments quietly dropped nationalisation. In Canberra, the Coalition adopted as much of Labor's socialism as was necessary and gave in to as many vested interests as were necessary to defeat a divided Labor party.

Maybe my glasses are rose-tinted, but on the whole it seems to me that we were, despite differences over the Vietnam War, rather 'happy little Vegemites'. Throughout the fifties unemployment was kept below 2% rising only by a percentage point in the 1960s, people claiming the various disability benefits were relatively few, families were relatively stable, recorded crime rates were comparatively low, alcohol was the only drug causing serious social problems, and nobody had heard of the 'culture of complaint'. That is not to contend that there were no unhappy people in a society that, whatever its other conveniences, was by today's measure censorious. Nor is it to argue that injustices were not swept under carpets. We were, for instance, thoughtless of Aborigines' rights and welfare but, if what we are told is reliable, Aborigines' health and life expectancy in the 1950s and 1960s was closer to that of the non-aboriginal population than it is today.

Unlike most other Western nations, however, our economic growth was associated with rapid population growth of over 2% per year, almost half of which was contributed by net migration. Economic growth per head, that is improvement in living standards, did not compare favourably with the countries with which we liked to compare ourselves. From 1954/55 to 1978/79 annual per capita growth was only 1.5%. Consequently, Australians were slipping down the tables of relative living

[19] Wolfgang Kasper, *Building Prosperity,* CIS, pp 6-11

standards.[20] Migration, which subtracted from the physical capital available to an average Australian but added to the proportion of working age population, was not the cause of poor per-capita economic growth. It did, however, tend to mask it.

Wolfgang Kasper, Richard Blandy, John Freebairn, Douglas Hocking and Robert O'Neil, the authors of *Australia at the Crossroads*, a publication destined to inspire much dry activity, illustrated the decline this way:

> Compared with the spectacular rise in living standards in the capital-intensive industrial countries of the Northern Hemisphere, Australia lost ground. In the early 1950s, Australia's per-capita income was higher than that of all European countries, except Switzerland, and Australia was one of the richest countries on earth, in a class with the United States, Canada, Sweden and Switzerland. By the late 1970s, Australian per capita incomes were about 25 % below those of Sweden and Switzerland and about 10% below those of the United States or West Germany. Australia now finds herself amongst the middle-developed countries, below Japan but above the poorer European industrial countries like the UK and Italy.[21]

Hindsight inflicts some irony upon the passage. Sweden was to get into quite deep economic trouble; Canada was even then making many of the same errors that Australia was making; and the UK is no longer among the poorer European nations. It was nevertheless an accurate description of the situation at the time and a call to arms for at least four dry politicians.

In the late 1950s the Liberal Party published *Broad Highway* and this remained in currency for at least a decade but it contained no thinking that was new. If anything, it carried the seeds of the statism that gained prominence in the Liberal Party thinking of the 1960s. It stated, for instance: 'As democracy develops it widens the social responsibility of Government' an idea that was to culminate in the Whitlam Governments. Liberalism had flowered briefly within the Liberal Party and it had been reflected in some of Menzies speeches, but for the time being that was over. Today *Broad Highway* looks distinctly wet!

The Western world over, the 1960's saw a remarkable rise in self-indulgence. The culture changed profoundly away from personal responsibility for both one's own and others' well-being. Prudence became old hat as the 'me generation' lived each day as if there were no tomorrow. Moral decadence was to leave a trail of dashed hopes and neglected duties, ruined economies and broken families. Inflation, neglected children and much else have cultural as well as economic explanations.

By the mid-1970s many Australians were conceding that we might have lost the plot.

Causes of Relative Economic Decline

Australia at the Crossroads argued that Australia's relative decline did not have macro-economic or demand-side causes. What is more, we had the advantages of excellent access to capital and an educated workforce. The 'deep seated malaise' that

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[20] Kasper et al, *Australia at the Crossroads,* Harcourt Brace Jovanovich Group, 1980, p 3

[21] ibid p 40

the Jackson Committee[22] had in 1975 identified in manufacturing could have referred to the whole supply side of the economic equation. Those industries that were the potential high fliers of a burgeoning economy carried the burden of those that were not. Tariffs and import quotas, monopoly Government-run utilities, and over-regulated services all imposed excessive costs that clipped their wings. In short, Government intervention made the supply side of the economy rigid – ossified it!

Australia's decline was of course not absolute – we did not become poorer. Rather, at a time when world living standards were rising as never before, we were not holding our own. The living standards of people in Singapore, Korea and Malaysia were rapidly catching up and per capita GDP in Japan and West Germany had passed ours. 'Better to lose wars than to win them' was being said with people's tongues barely in their cheeks.

By the 1970s, reasons for our relative economic decline had been well enough explained to provide a basis for reform. Those who wished to know, knew that most economists attributed our poor economic growth to subsidies, tariffs, statutory monopolies, industrial awards, occupational licences and anti-competitive regulations. Many, however, preferred not to know. Donald Horne's well-named little polemic, *The Lucky Country,* had colourfully drawn attention to poor per capita growth and to some of its causes, rightly blaming conservative Governments for policy failures. Its prescriptions, however, were much less than helpful.

Government welfare policies may also have had adverse economic effects but, by Western European standards and those that were soon to be adopted by the Whitlam Government, Australian welfare was modest. The malaise was attributed in the main to only two forms of Government intervention that distinguished Australia from most other Western nations. These were our self-imposed barriers to international trade that were conventional in style but exceptionally high, and our industrial relations system that was like no other.

Australia had barely shared in the post-war trade boom, our share of international trade falling from 3 % in 1950 to 1.8% in 1960 to 1.3 % by 1977.[23] Conventional economic theory predicts that declining shares of world trade, other things being more or less equal, will to be followed by the declining relative living standards. We were experiencing these.

Conventional economics further predicts that one-size-fits-all mandated working conditions will be associated with poor productivity growth. We were experiencing that too. As well, minimum wages and mandated work conditions are meaningless unless set at levels that prevent people with low productive capacity from working in the regulated sector. In the 1970s, when the greater numbers of people denied work in the award regulated economy failed to find jobs mowing lawns, baby sitting etc, where the writ of awards does not run, unemployment resulted. Only the wilfully obtuse evinced surprise.

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[22] *Committee to Advise on Policies for Manufacturing Industry* (1975)
[23] Kasper et al, *Australia at the Crossroads,* Harcourt Brace Jovanovich, 1980

Our prosperity during the 1950s, which in any case was not impressive by international standards of the time, had been built upon weak foundations. Although the macro economy (money supply, fiscal balance, the fixed exchange rate and judicially fixed aggregate/average wages) had on the whole been about as well managed as such as structure could be, the micro economy had not. Uncompetitive manufacturing, sheltering behind high tariff and import quota walls, was claiming resources that could have been better employed; Governments had invested in grandiose uncosted irrigation, power and transport schemes; the service sector from rural marketing to airlines to the professions was regulated into inefficiency. Most seriously, employees and employers were prevented by law from raising productivity in return for higher remuneration.

Shaun Kenaelly describes the time:

> The golden age [the 1950s] may also be seen as a period of extended childhood, all lived under the quasi-parental guidance of patriarchal politicians and the economic and social supervision of duly-constituted boards. The boards supervised the flow of everything, from eggs to literature. One board set a tariff on imported cottons, another censored books and films. A third ensured that the incoming flow of migration was kept racially pure, a fourth held comic-judicial hearings and granted general increases in wages. The Victorian Football League divided the state into zones to ensure that promising young footballers might only play for the city-team that owned the particular patch in which they happened to reside. This was what it meant to live in a protected country. After fifty or sixty years of the 'New Protection', most Australians were happy that it was so: whilst simultaneously assuring each other that they were the most independent and pioneering people in the world.[24]

The New Xenophobia

'New Protection' dated back to the tariff debates between the Protectionist Party led by Alfred Deakin and Free Trade Party led by George Reid in the first decade of the century. It guaranteed the Australian market to Australian manufacturers on the understanding that they pay fair and reasonable wages to their employees and charge fair and reasonable prices. Deakin devised it to gain the support of the Labour Party, which until then had been divided on the trade issue. In 1909, to prevent the greater evil as he saw it of a Deakinite–Labour coalition, Reid abandoned his insistence upon free trade to form the 'Fusion' with the Deakinites. By 1910, free trade was off the political agenda, dead, and it stayed that way until the 1980s.

Protection was further enshrined at the 1932 Ottawa Imperial Conference when, in return for easy entry of Australian goods to British markets, Australia agreed to put tariff making on a more rational basis and to grant British goods preference in Australian markets. At the time, Sir Hal Colebatch said of the Ottawa agreement: 'The members of the British Empire agreed to buy from each other on worse terms than would have pertained in a free market'.

'Fair and reasonable' were empty terms until quantified. A tariff board advised on tariffs and import quotas; parliaments legislated domestic wheat, milk and sugar prices, put a floor under medical doctors' fees, prevented competition in dozens of

[24] Shaun Kenaelly, unpublished

industries from banking to barbering; and arbitration tribunals ruled upon artificial disputes following ambit claims concerning wages and working conditions. In practice ‘fair and reasonable’ became what each mendicant claimed that it needed to survive (which it usually equated with prosper). The costs of mendicants’ successes became the causes of others’ claims. The dog never did catch its tail.

The one virtue of Australian trade barriers was to be an important one. Protection tended to be in the form of relatively visible tariffs and quantitative restrictions that in due course enabling their economic cost to be measured with passable precision. But the anecdotal evidence that the cost was considerable abounded long before it was well measured. In the 1950s Australia had produced an approximately world-class Holden car at not wildly uncompetitive prices. But by the 1960s and 70s, protection had so destroyed the need to innovate that people who could afford to do so were paying the tariff and freight-inflated costs of imported motor vehicles to obtain their safety and reliability. Footwear, clothing and textiles form a larger portion of the poor household’s budget than of the well to do. Nevertheless, tariffs and import quotas taxed these at punitive levels that were more regressive than any GST or other point-of-sale tax ever contemplated, let alone enacted.

Monopoly marketing boards, by force of law, ‘acquired’ most rural produce except wool and meat. These monopolies exported at world prices but sold to the domestic market at higher prices than could have been obtained had there been competition. The price minimums sometimes led to the production of more than could be sold. Wheat production quotas had to be introduced in 1969. Grain was handled by monopoly bulk-handling authorities, moved by monopoly state-owned railways and shipped through monopoly state-owned ports only by vessels that met Australian standards. To the extent that it was exported, as most was, the unnecessary costs were borne entirely by farmers. The situation was similar with sugar, regulated by a system of mill quotas, and dairying that commanded prices in the regulated whole milk markets far in excess of those that could be obtained for the production of butter or cheese. Dairying also benefited from a virtual ban on the production of margarine. These processes were euphemistically referred to as ‘orderly marketing’ and most farmers were in love with them. They were a particularly bizarre aspect of a bizarre economy.

Irrigation was heavily subsidised by charging for water at prices that did not come close to justifying the cost of the headworks. The Snowy Mountains project had turned the waters of the Snowy River back through the mountains to increase the flow of the Murray and to provide electricity. It was undoubtedly a noteworthy engineering feat but there had been singular reluctance to ask whether the resources could have been better employed elsewhere. The Ord River scheme in the Kimberley district of Western Australia to this day has not produced enough of anything to justify its cost, although an amusing paper published by the Centre for Independent Studies claims that its building established the minimum monetary value of a Senate seat.

Our capital markets were inhibited by fixed exchange rates, regulated interest rates, quantitative restrictions on bank assets and capital raisings by foreign companies within Australia. Some sectors and types of lending were favoured over others. Australian banks were protected from foreign competition, and the taxation system favoured retained profits. The Gorton Government in the late 1960s restricted foreign

investment and takeover of Australian companies. The Government-owned Australian Industries Development Corporation invested in favoured Australian companies. Government approval was required to export minerals and petroleum exploration was subsidised. The Navigation Acts protected local shipping from foreign competition and, to protect Qantas, foreign airlines were denied landing rights.

The fair and reasonable wages that the arbitration tribunals quantified were enforced with complex, arcane, unjust and inefficient rules regulating employment. Australian unions and employers' organisations could represent their members before the quasi-courts that determined wages and work conditions only if recognised and the arbitration tribunals would not recognise an organisation if another existed to which the members could 'conveniently belong'. Recognition thus gave the favoured unions monopolies and effectively denied employees freedom to associate. Union membership was almost always defined by activity rather than by location, employer or other relevant characteristic. Some awards contained clauses giving unionists preferred access to employment and at many worksites unionists refused to work alongside non-members – 'no ticket no start'. Union dues were often deducted from pay packets. With so much denied to non-unionists, Australia had one of the most highly unionised workforces in the world.

The union bosses were freed to conduct territorial contests with other unions. They would sometimes call their members out on strike in what were called 'demarcation disputes'.

The whole anti-competitive coercive arrangement was run by a few industrial relations experts – commissioners, lawyers, union officials and company personnel managers. The most senior of these were based in Melbourne and were to become derisively known as 'The Industrial Relations Club'.[25] The system, as it then was, was comfortable for those securely employed and who had no wish to go the extra yard in search of reward. It was comfortable for large employers, who knowing their competitors were similarly constrained, did not have to negotiate employment contracts that would raise productivity. It was comfortable for unions and employer organisations that did not need to fear competition. Most of all it was exceedingly comfortable for members of the Club who enjoyed good incomes, high status and excellent wine.

Henry Bournes Higgins, the father of compulsory arbitration of labour disputes, had seen his social experiment as both ethical and useful. It would, he believed, avoid the nuisance of strikes and lockouts and bind the classes together. While Australia is a relatively classless community, there is no credible evidence that a system that pitted labour against capital in a quasi-judicial process contributed to that happy condition. As for strikes, Australians experienced more than their share.

Occupational protection was enjoyed also by medical doctors, lawyers and all professions except the oldest that was banned in most States.

[25] The term was first used by Gerard Henderson one time chief of staff in John Howard's office and now executive director of the Sydney Institute.

After the World War II, the major nations had set up the General Agreement on Tariff and Trade (GATT). It had huge success in increasing world trade and economic inter-dependence. Australia, however, with a resource endowment that more than most countries could be exploited only through trade, had barely participated.

We failed to heed history's lessons. In 1930 the United States Congress had responded to Japanese imports with the infamous Smoot-Hawley tariff. More than any other single event, this and the retaliation it provoked had turned the common-or-garden 1929 recession into 'the great depression'. It and the retaliation destroyed Japanese-American trade and left Latin American debtor nations, such as Peru, with no way to pay their debts to American banks. Like the Ottawa Agreement, it provoked resentment in Japan that must have contributed to the decision eleven years later to bomb Pearl Harbour. The Japanese invasion of Manchuria had been encouraged by Japan's loss of opportunities to trade[26] and Hitler had tried to justify his demands for *lebensraum* in terms of the need for markets and resources that had been denied to Germany.

With restrictions placed upon everything foreign – goods, services, capital, company control, land ownership, people and even culture – we were distinctly xenophobic and our prejudices extended not just to foreigners but to members of other unions, other industries, etc etc. Although not very important in itself, nothing demonstrated our lack of confidence in our own maturity and good sense more graphically than the local content rules for the electronic media. Whether they wished it or not, infantile Australian audiences had to be protected from 'American culture'.

Risks and rewards were much muted in the Land of the Long Weekend[27] and throughout the post-war period, productivity improvement had, as we saw, been dismal. In 1974, the newly formed Industries Assistance Commission published a considerable list of complex, arcane, unequal and inefficient Government interventions. A quarter of a century later one can marvel that they should ever have been tolerated. Although Australians appeared to suffer Governments that interfered more than in most Western countries,[28] Australia was not so very exceptional. The times were different.

By the 1970s, Australians had a tiger by the tail and the first oil shock loosened our grip. We began the last quarter of the century not merely with less relative economic clout than we had begun the previous quarter century but turned in upon ourselves behind barriers of our own making.

Absolute Social Decline

During the 1960s, in Australia as elsewhere, personal restraint made way for hedonism, particularly among those people who propagate ideas – Katherine Betts' 'cosmopolitan new class'. The link between the cultural shift of the sixties and the worrisome social indicators in the seventies and beyond cannot be proven or disproven but, when issues are too important to ignore, common sense and knowledge

[26] Paul Johnson, *A History of the ModernWorld,* Weddenfield Paperbacks, 1983, p310
[27] The title of a book by R. Conway: *The Land of the Long Weekend*, Melbourne Sun Books, 1978.
[28] Kasper et al, *Australia at the Crossroads* Harcourt Brace Jovanovich, 1980, p 43

of the human species must guide us. A cultural dimension to the deterioration of these indicators seems eminently likely.

Although they were to get far worse, by the mid-1970s some social indicators were in absolute decline. Property crime rates were 4 to 4.5 times greater than immediately after the war, the rates of violent crime – murder, rape and assault – had each increased, with the rate of all serious crimes more than doubling. The incidence of marriage breakdown leading to divorce had nearly doubled and the percentage of ex-nuptial births more than doubled. One-parent households were becoming common. The suicide rate had increased. Unemployment that had remained within the 2-3.5 % range for twenty years had suddenly increased.[29] Fears were beginning to be expressed that the unemployed would become a more-or-less permanent, alienated underclass. Many but not all Aborigines had long been members of such a class. Drug abuse had not then become the serious problem that it is today but it was already increasing.

The effects of welfare payments upon these changes featured in popular debate but reliable correlations, let alone evidence linking cause with effect, were simply not then available, mainly because the intelligentsia had refused to test the hypotheses that suggested linkages. In 1970-71 expenditure on broadly-defined welfare occupied 17% of the Federal budget and 4.1% of GDP. These proportions were to increase to around 27% and 8.3% respectively at the end of the 1970s. This much was clear, however: the welfare state was failing to prevent an increase in human emiseration. In the United States Lyndon Johnson's 'Great Society' program endeavoured to direct welfare towards empowering and encouraging people to take command of their own lives. It had seemed to me to be the right approach but it also proved unsuccessful.

As we entered the last quarter, thoughtful Australians were concerned not just about the relative decline of their economy but also the absolute deterioration of aspects of their society. They turned their minds to public policy formation and national governance generally, which was in a state of flux.

The Coalition

By the end of the 1960s Gough Whitlam was, in effect, ruling Australia from the Opposition Benches. The ideological differences that had characterised early post-war politics had gone. Labor no longer believed in nationalisation while the Liberals no longer believed in anything and were accused of 'stealing' Labor's policies.

The Liberal Party had never been consistently liberal and the coalitions it formed with the Country Party in Canberra and in most States, were even less so. Unsure of its beliefs, it would describe itself merely as 'anti-socialist'. The administrations it formed had been reasonably competent but want of a settled vision had gradually caused Menzies' Liberals to lose their way. Before putting too much faith in vision alone however, we should reflect upon the poor record of some visionary Governments. Even when the means employed had been as legitimate as for instance those of the Attlee Government in post-war Britain, ill-conceived visions had produced some highly unsatisfactory outcomes.

[29] Sullivan et al, State of the Nation 1999, CIS

John (later Sir John) McEwen, the member for Indi and then Murray in Victoria, led the Country Party from 1958 until his retirement in 1971. He was protectionist through and through and a populist brought up in the hard school of Victorian Country Party politics with its base among the small dairy farmers, irrigation orchardists and Mallee wheat growers. His was an angry approach to politics with which he slowly took over the Country Party of Arthur Fadden and the grazier interests.

Nevertheless, McEwen, who was a considerable force in the Coalition, had had a national view of sorts. Not only did he want fixed high prices for farmers extracted from Australian households, he wanted high tariffs on farmer's inputs – he wanted protection all round. What is more, although such a thing is a logical impossibility, he convinced a majority of farmers in the great export industries of grains, red meat and sugar that, if he had his way, the Government would provide it. The superphosphate bounty – introduced under Menzies, abandoned under Whitlam, reinstated under Fraser and finally abandoned under Hawke – was worth as much to the average farmer as a tariff cut of only a few percentage points but farmers blessed the Country Party for it. That most farmers in the 1960s believed that wealth could be created by a complete circle of taking from one and giving to another is less remarkable than that some executives of big mining companies, selling almost entirely into foreign markets and with access to expert advice, professed to believe it.

McEwen built a bureaucratic base for himself in the Department of Trade, and Trade and Treasury were pitted one against the other in formulating economic policy. Since ultimately imports must balance exports plus net capital inflow, the Department of Trade and its minister, by supporting barriers to imports, prevented far more trade than it encouraged. Dries likened it to a Fire Department, responsible for extinguishing fires.

By the end of the 1960s, the Coalition Government in Canberra was in poor shape. The Vietnam War, which was beginning to go badly, and dissension over conscription, had sapped the Liberal Party's confidence. The Coalition was obsessed with retaining office but racked with internal enmity. The post-war ex-servicemen who had brought honourable idealism to the parliament had been superseded in part by placemen.

It tried to buy the votes of interest groups with numerous promises, many of which involving a bit of smoke and a few mirrors, by promising subsidies, tax breaks, restrictive licences, marketing schemes with minimum prices, tariffs and expenditure upon a considerable array of matters – 'shopping list politics'. Nevertheless, until the advent of the Whitlam Government in 1972, the budgetary consequences were kept within very reasonable bounds. When these bounds were abandoned, Commonwealth budgets were not brought back under control until the Hawke Governments from1987-88 to 1990-91. The Liberal/Country Party Coalition Government in Canberra from 1966 to its defeat in 1972 was, irresponsible, undisciplined and selfish in its pursuit of office.

I do not believe it can always have been thus, but from the mid-sixties, when I was first intimately associated with the Liberal Party, there was a tendency to see 'the Party' as an end in itself. Almost no one was asserting what good Government

consisted in and asking how it might be made better. Policy was debated in terms of interests. The better-organised lobbies influences upon it were made too easy by the lack of principles against which to test their demands. The Country Party was even worse and the quality of Government was by most western standards poor. Nothing better illustrated its poverty than the Country Party's capacity and preparedness to prevent the revaluation of the Australian dollar against all advice. The Coalition had been in office too long.

In contrast, debate within the Labor Party at that time was continuous and often divisive. Division was said to be the reason why Labor had not won Federal office but another explanation was that until the late sixties one faction had links with Communists and their fellow-travellers. From when the ALP could no longer plausibly be accused of being subject to communist influence, vigorous debates about policy seemed to do Labor no harm and some good. Might not the Coalition Parties have benefited from an equivalent of the Fabian Society discussing policy in terms of the liberalism to which the party still paid relatively thoughtless lip service? Be that as it may, the Coalition that won office in 1975 was much the same purposeless organisation that had lost it in 1972.

At the Court of the Great Gough

Gough Whitlam, Labor Prime Minister from 2 December 1972 to 11 November 1975 was an aristocrat: charming, erudite and imperious. He tried to govern like a medieval prince and failed for the same reason that most princes failed. His extravagances out-ran what the Australian economy could sustain.

His Government spent as though there were no tomorrow. It came to office with a long list of policies referred to as 'the program' for which it claimed 'a mandate', pronounced 'mhandate'. Despite the reverence with which this was treated, it was little more than a list of promises to a new batch of vociferous interests. Even had the nation not gone into recession in 1974-75, the program could never, as it claimed, have been 'paid for from the normal growth in Government revenue without increasing taxation'. As it was, the program and the recession between them caused outlays to increase by 20.5% in 1974-75 alone and the budget deficit to blow out to 3.8 % of GDP.[30]

Whitlam won in 1972 from a stale and tired Government in what was perceived as a recession by a remarkably narrow margin. It is therefore doubtful that 'the program' won Labor much electoral support on that occasion. Public choice theorists might argue, however, that in 1974, when Labor was itself beginning to be discredited but the vested interests had tasted their privileges, it saved Labor from the defeat the Coalition expected to inflict.

Labor used the public sector to set the pace in wage increases and wages climbed sharply ahead of productivity. In 1974 alone, average minimum wage rates increased by 36% for males and 40% for females with average weekly earnings rising by 28% reflecting considerable compression of the margins for skill. For the three years from May 1972 to May 1975, average weekly earnings rose by 61% and most award pay

[30] Walsh, *Confessions of a Failed Finance Ministe,* Random House, pp15, 16.

rates for unskilled workers doubled.[31] Even though annual inflation reached 18% in 1974, these increases were far above the sum of inflation and productivity gain and consequently unemployment rose from under 3% in 1972 to 7% by the time Whitlam lost office in 1975. Much worse was to come.

It is too often forgotten that the McMahon Government handed Whitlam a time bomb in the form of a badly inflated money supply. Whitlam could have been defused it promptly but didn't. Capital inflow and export revenue associated with the mining boom of the time had put considerable upward pressure on the exchange rate but McMahon, bowing to Country Party pressure, had refused to revalue the dollar. Inflation consequently climbed into double figures. The more or less conventional wisdom among most Dries that exchange rate policy had to be taken out of the hands of politicians developed from these events. As the problem's nefarious cause was widely known and reflected nothing but shame on the outgoing Government, the new Government's failure to act promptly defies my understanding.

When the Government reacted by implementing overdue stepwise currency revaluations it also took one significant step toward productive efficiency. As an alternative to further revaluation, in 1973, the Government chose instead to cut tariffs by 25% across the board. This was heroic, probably counterproductive in the long run and historic: it had started to abandon the protectionist side of the New Protectionism. The tariff cut had the same macro-economic effect as a small revaluation but concentrated the consequent adjustment to changed prices among those industries that were least efficient and, therefore, a burden to others.

The policy had been dreamed up by a small committee chaired by Alf Rattigan[32] and was without Treasury input or the knowledge of the Frank Crean, the Treasurer. Treasury, which was known to be opposed to industry protection but had been given only about five hours to respond to an urgent call from the Treasurer, opposed the measure on technical grounds and because of the abruptness of the decision. This reinforced the belief in Government circles that it was incorrigibly recalcitrant. The effect of the cut upon employment, even in the textile industry, was minor compared with that of the revaluations and the decision to raise the minimum pay levels for women to those for men.

The Government (and Treasury) also sought to control inflation by the conventional means of squeezing credit after an extended period of loose monetary and fiscal policy and, as so often was the case, introduced the squeeze when the boom was over. Recession, which the wage hike was more than sufficient to have caused, was already upon the nation. Before financial market deregulation, the practice was to squeeze credit by quantitative means; real interest rates were substantially below the inflation rate, that is, real rates were substantially negative. One effect of these negative rates was to transfer large sums from lenders to borrowers with access to credit. In my own case they went a good way towards paying for a farm I had recently purchased. They did the same for people who were home buyers. Those who lost were people who had

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[31] Kasper et al, *Australia at the Crossroads,* Harcourt Brace Jovanovich, 1980, p 71
[32] Snape, Gropp and Luttrell, *Australian Trade Policy 1965-1997*, Allen & Unwin, 1998, p 24 - 25

deposited cash with banks and building societies. Low interest rate policies and inflation are regressive and when combined are very much so.

Australia had not been ready for the 25% tariff cut and a Government that was shortly thereafter discredited by 'the Khemlani loans affair' had undertaken it. Launceston, in the Federal seat of Bass, was particularly dependent on the heavily protected textile industry and the Opposition led by Malcolm Fraser used the tariff cut untruthfully but successfully during the by-election there. When Eric Newman won the seat comfortably for the Liberal Party the episode did much to reinforce the received wisdom that tariff cuts were politically impossible. With unemployment approaching 7% and facing defeat at the hands of the Fraser Opposition, the Government tried to shore up employment in the heavily protected industries with import quotas that probably did more economic damage than the tariff.

By-elections tend to bring forth particularly unsatisfactory campaigns. The House of Representatives is seldom so finely balanced that their outcomes can affect the balance of power but doing badly in a by-election can mean a leadership challenge. Therefore, electors whose MP has in one way or another departed find all their Christmases coming at once. Even less constrained than is usual by the need to take the interests of people in the whole nation into account, political leaders plumb the depths of interest-group politics. Tariff reduction was the victim of the Bass by-election; means testing pensions was to be the victim of the Lowe by-election and Telephone time charging of the Adelaide by-election, etc.

A five-page passage from *Australia at the Crossroads* was the source of many a smile among Dries (some of them wry).

> …. The image of the lucky country – of a people freakishly endowed by nature with good fortune – emerged, forming the basis for a resurgence of heady cultural nationalism which reached its crescendo in the first 18 months of the Whitlam Government. Indeed the growing disenchantment with the predecessor Liberal Governments owed more than a little to their patent unworthiness in carrying the blossoming torch of self-assertion and expression which was probably epitomised by their involvement of Australia in a losing and unpopular war in Vietnam. The Whitlam Government was elected in euphoria as the harbinger of the new Australia, which was to be, above all, without a dull moment.
>
> The preceding decades of Liberal rule – particularly under Menzies – had been associated with steady and unspectacular economic development enlivened by the fortuitous minerals boom which removed one of the main policy constraints – the perennial balance of payments problem. Apart from major developments in tertiary education, subsidies for health care, and steady expansion of the Government bureaucracy, the Liberals failed to give due political recognition to the emergence of redistributive, cultural and environmental issues. These were rapidly picked up by the New Left of the Labor party.
>
> The bacchanalia reached its crescendo as the glittering new Court [of the Whitlam Government] unlocked the vaults and flung the coin of the realm from the palace balcony to the euphoric populace below. Government outlays on education – double in two years. Government outlays on health – quadruple in two years. Government outlays on social security and welfare – double in two years. Total

> receipts – up 80 % in the same interval. It was a wingding of a party while it lasted. There was to be no settling. The greatness of our very own 'Incredible Bread Machine' – we were assured – would pay for the party painlessly from economic growth as we raced out of the modest 1971/72 recession. The machine was indestructible. We deserved a bit of a binge. If there were Jeremiahs, they were silent or at least inaudible in the general hubbub of excitement. Those were the days. It was time.
>
> Behind a screen of egalitarianism, the Trendies' vested economic interests emerged. The 'Guardians' in the bureaucracy and public sector lobbies had at last arrived to do good to us by spending our money for us better than we could ever hope to for ourselves (and in ever larger lumps), thus not only protecting us from the depredations of the malign capitalists, but also from our imperfect selves. Collectivism was the order of the day. Political pressure and Byzantine bureaucratic manoeuvre was seen as superior mechanism for the allocation of resources than the imperfect market-place. The distributional politics of the left were about acquiring the power and resources to do good to deserving people, we discovered. A major part of the guardianism was also to feed the natural desire by most people – and indeed most Australian companies – to be protected against the vicissitudes of life. Guardianism vigorously promoted the image of a costless 'no risk' society, striking a deep chord in the Australian psyche which had long had a sneaking fetish for Government-issue security blankets.
>
> The celebration crumbled just as it was getting under way. Adverse international economic developments – OPEC oil crisis and the global economic recession – and homespun difficulties put a fatal dampener on the hi-jinks at the party. Unemployment ballooned in 1974/75, despite, or so the Government at least felt, our increase in Government outlays of a miraculous 46%. Private employment tumbled. The hangover from what had been such a splendid party began.[33]

By 1972 when Whitlam was elected, Labor, having been out of office for too long, lacked necessary ministerial experience and, having convinced itself of the existence of countless non-existent conspiracies, did not trust conventional sources of advice particularly in the civil service. Both McMahon and Whitlam led Governments that were more than bad enough to account for their defeat. Fun though it is to look for further explanations in Labor's inability to represent the *Zeitgeist* or the public's inability to appreciate Labor's *Weltanschauung*, I do not believe the search gets us anywhere. The Labor Party that was defeated in 1975 knew it had made a mess of governing and more than anything else that knowledge was to influence the Labor Government elected in 1983.

Although the Whitlam Governments got a great deal wrong, from a dry perspective they got one matter very right. They created the Industries Assistance Commission, of which more in Chapter 6. Whitlam on many occasions, including at Kelly's funeral, has credited C.R. (Bert) Kelly, the Liberal Party Member for the South Australian Federal seat of Wakefield, with the inspiration and education that led to his doing it but, of course, credit for the achievement id deservedly his.

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[33] Kasper et al, *Australia at the Crossroads,* Harcourt Brace Jovanovich, 1980, p78-81

By 1975 Australia was sorely in need of better Government but the beginnings of the counter-attack on the policy drift cannot be pinpointed. Liberal ideals had been kept alive by a remarkably few far-sighted and public-spirited individuals, among whom was Bert Kelly. Before the advent of readily purchased commercial yeast every batch of bread needed a little leaven from the last, so the intellectual ferment of the 1980s and early 1990s was worked by the leaven of Bert Kelly and his like.

His extraordinary contribution is the next chapter.

Chapter 3
Bert Kelly

My sword I give to him that shall succeed me in my pilgrimage, and my courage and skill to him that can get it.
Valiant-for-Truth, *The Pilgrim's Progress*, John Bunyan

In May 1981 Peter Bowers wrote in the *Sydney Morning Herald*:

> Bert Kelly … for most of his 19 years in Parliament was single voice with a single issue. Year after year he hammered away first at the Menzies Government, then Holt's then Gorton's then McMahon's then Whitlam's and finally Fraser's on the issue of tariff reduction.
>
> When John McEwen bucketed him no one stirred on the Liberal benches to defend him.
>
> If Kellyism was a lost cause, the slow-talking droll farmer from South Australia, who somehow managed to be totally uncorrupted by politics, has had the satisfaction of seeing that cause taken up and turned into a powerful movement after he quit the Parliament in 1977. Bert Kelly believes he failed…
>
> John Hyde does not see Bert Kelly as a failure. 'He schooled all of us,' he says. 'Few men get a chance to change the course of history. Bert Kelly may prove to be one of those men.'

Bert Kelly, who was conspicuously proud of the chickens he had hatched, knew perfectly well that he had not failed but self-deprecation was his way, sometimes to the irritation of his friends. At one point Bowers' article was singularly perceptive: Kelly's incorruptibility was an outstanding trait upon which his considerable influence ultimately rested.

After losing my seat in the Federal Parliament I came across a speech I had made early in 1975, when I was still very much a novice MP. Whitlam was then Prime Minister. Vic Garland, the Opposition Whip had procured me the opportunity to speak on behalf of the Opposition.

I remember being told that all I had to do was to bucket the Government. Which I did, declaring that interest rates were too high. I said that at a time when inflation was high and rising and, if real rates were not already negative, they were soon to become so. At lunch, Bert Kelly dumped himself beside me in the dining room.
'Hyde, did you believe all that bullshit you mouthed this morning.'
'Well No, but Vic.....'
'Well why say it?'

I appreciated only later how much work Bert was prepared to put into me, and I came to regard him as one would a parent one wishes not to disappoint. I

have no excuse for the speech, but it was at Kelly's feet that I learned enough for later Whips to ask me not to speak.

Bert Kelly was born in 1912, the great grandson of William Saddler and Jane Kelly who in 1838 immigrated from the Isle of Man to South Australia. Even by the time that the Kellys arrived, the colony was to demonstrate two dry precepts. One was that a society cannot function satisfactorily without a Government that can maintain rules. The other was that, if rules are extended beyond the processes that should regulate commerce by proscribing force and fraud, to prescribe prices, quantities, qualities and other outcomes of production and exchange, as the colony had done by fixing a so called 'sufficient price' for land, then chaos, inefficiency and waste are likely. In 1838 the people of Adelaide were experiencing wild inflation, unemployment and serious poverty. Bert, who knew his State's history, would have noted that 'sufficient prices' for 1830s South Australian land produced many of the same consequences as 'sufficient prices' for 1960s protected manufactures.[34]

The Kelly family was of Methodist stock – hard working, principled, fair-minded, where necessary stubbornly defiant, and with that way with words that marks effective lay preachers. There seems to have been a strong sense of civic responsibility running in their veins. His father, William Stanley (WS) Kelly, born in 1881, served on the SA Pastoral Board, was wounded in France, served on the Tariff Board and was a prominent World War II adviser to the Curtin Government. His grandfather Robert sat in the colonial parliament from 1891 to 1893. His great grandfather William had been a district councilor of Talunga in 1853.

WS Kelly, whose appointment to the Tariff Board in 1929 coincided with the Great Depression, came into contact with the great economic minds of his day. These included EOG Shann (Professor of Economics and History at the University of Western Australia and author of *Economic History of Australia*), Douglas Copeland (Professor of Economics at Melbourne University), Sir Frederic Eggleston (Victorian MP, diplomat and author of *State Socialism in Victoria*), and James Brigden (Professor of Economics at the University of Tasmania and chairman of the Brigden Committee which reported on the consequences of the tariff in 1929).

They belonged to a club of the intellectual elite among economic policy advocates, the Round Table, to which they invited WS. Its members were of vastly different backgrounds and differing political perspectives but they seem to have shared a highly developed sense of public duty. These people can but have had a great influence on WS Kelly and through him some further

[34] This chapter, although tempered by my experience of Bert who was my mentor and friend, draws very heavily on the unpublished work of Shaun Kenaelly who studied Bert's life and his contribution to public policy in great detail. This unfinished account of Kelly's work is in the possession of Mr Ray Evans of WMC Resources. Although it is not adequately organised and like all drafts repetitious I recommend it to any serious student of the events and their times. The reader will be rewarded also by some beautifully-written passages.

influence upon Bert. The Kellys did not, however, need instruction in public duty: that was family tradition. The extent to which such traditions are handed down culturally or genetically we do not know. It may not be relevant, but my father believed that the propensity to 'pull one's weight' is highly heritable among Clydesdales: it may also be so in other species.

Members of the Round Table were creatures of their times as we are of ours. When assessed against today's opinion they, therefore, possessed more than a fair measure of that hang-over from the Enlightenment, an overweening confidence in the capacity of human intelligence that Hayek was later to refer to as 'the fatal conceit'. They believed that by taking thought they could, if not add one cubit unto their statues, at least manipulate mankind in detail for its benefit – they were social engineers and planners. They were not, however, economic irrationalists – on the contrary. From before his appointment to the Tariff Board WS Kelly for one of his time, seems to have been unusually sceptical of visions of development guided by wise men and the hand of authority. It surely reflects credit on the Prime Minister of the time, Stanley Melbourne Bruce, and the development-minded men who advised him that they nevertheless chose Kelly. As the Great Depression deepened the role of the Tariff Board expanded. Every industry sought protection from plummeting prices and few realised or, if they did realise, would accept in public that one industry's protection is another industry's cost.

After the 'Fusion' of the Protectionists and Free Traders in 1909 there had been few Federal Parliamentarians who shared WS Kelly's concerns about excessive tariffs. There were, however, some: Sir Hal Colebatch, semi-independent Senator from Western Australia from 1929 to 1933; Henry Gregory a member from 1913 until 1940 who joined the Country Party in 1920; Charles Hawker, within the UAP in the 1930s; and Charles Russell in the Country Party but briefly from 1949 to 1951. Each had been a consistent economic rationalist more interested in prosperity and equity than in their careers.

Bert Kelly particularly admired Charles Hawker, the MP for Wakefield in South Australia from 1931 until his death in an aeroplane crash in 1938. Wakefield was later Bert's own constituency. Hawker, who had a distinguished World-War-I record, had been badly wounded, teaching himself to walk with the aid of callipers only by a feat of great endurance.

Shaun Kenaelly tells of how, only three days after his maiden speech, Hawker intervened during Question Time; attempting to quiz the Minister for Trade on a new Tariff Schedule, introduced without apparent reference to the Tariff Board. He was ruled out of order. (It took me more than four years before I mustered the confidence to take Ministers on at question time.) Hawker was appointed to the Lyons Ministry in 1932. He fought within it against high tariffs, more or less a lone voice for such time as he was there, but was not included in the delegation to the Ottawa Conference that established a preferential trading system within the British Empire, despite his department having done much of the preliminary work. He resigned only months after his appointment, when he felt obliged to support a motion reducing MP's salaries having earlier told his constituency he

would do so and because he believed that the necessary sacrifices of the time ought to start at the top. He remained on the backbench until his death.

Over twenty years before Bert became an MP, Hawker had encouraged him in the direction of public office. The episode can only have occurred shortly before Hawker's death when Bert was in his early 20s. Bert was later to report:

> One day [Hawker] said, 'Look Bert,' he said, 'I want you to prepare yourself to take over from me when I can't go on, when I resign from Wakefield'. I said 'Look, I'd rather be dead than in politics!' He said 'Look, I'm not asking you what you want Bert. I'm just telling you where your duty lies'.[35]

Bert did, however, raise the possibility of politics with Lorna, whom he had recently married. She gave him a firm thumbs down. Over sixty years later she observed to me that the young tempt fate!

Bert was an innovative farmer, well ahead of his time. He had a peasant's affection for and pride in his property, Merrindie, at Tarlee, 80 km North of Adelaide. If my son had not wanted to farm I could have sold my farm with barely a glance back, but not Bert. Yet he was not constrained by his boundary fences. He was one of the first two Australian Nuffield Scholars and from the time that he left school he had felt obliged to serve and to teach – Sunday school, soil conservation committees, show judging, the State Advisory Board of Agriculture and a column, Dave's Diary, in *The Stock Journal*. I know plenty of superb farmers with strong peasant instincts but no others who so strongly felt the obligation to share their knowledge. I know once-good farmers who serve on boards but very few who provide that genuine leadership which can be offered only by tackling the unpopular causes. It is surely a considerable irony that, if socialism were to have a snowball's chance in Hades, it would depend upon people like Bert Kelly to make it work! Bert attributed the Nuffield scholarship and the long round of talks after it with his becoming known and therefore able to win endorsement for Wakefield later.[36]

Bert won the seat of Wakefield, on the retirement of Sir Philip McBride in 1958. He was fortunate in his marriage. For the first time Bert now came in the way of a temptation that few people making a name for themselves manage to resist, the temptation to take themselves too seriously. Some pomposity gives useful gravitas to those on top regulating and ordering according to the wisdom and authority of their time. It lends only absurdity to those who are trying to buck the system. In the company of the delightful Lorna, pomposity invokes its own hazards. She was Bert's committed helpmate and she was also his most effective critic with whom he discussed tactics and tested those politically effective quips for which he became renowned.

He threw down the gauntlet, very gently, at the feet of the protectionists in his maiden speech but it is doubtful whether any took it seriously and none bothered then to pick it up. Protection was then very much the received wisdom and its archpriest was John McEwen. McEwen had left the parliament by the time that I

[35] Shaun Kenaelly, unpublished.
[36] ibid

came to it but Bert once told me that dealing with McEwen was difficult because, unlike many who came cap in hand for protection from competition, McEwen actually believed in it. McEwen did believe in protection but he believed in it so strongly that he allowed his end to justify means he not to have countenanced.

Peter Howson noted a party-room tussle that occurred in 1966:

> a long debate initiated by Bert Kelly on customs tariff procedures in the House of Representatives. I had hoped that it might have led to constructive improvements, but instead it became a brawl between Kelly and John McEwen which, of course, was won by McEwen.

Shaun Kenaelly observes that Bert did not bother to record the episode in his diary. He was too accustomed to losing battles that must be fought again and yet again to bother.

However, before that, Bert, like any other MP, had to learn his new trade. In his first term he was appointed to the Forster Committee to inquire into a grandiose scheme to grow peanuts in the Northern Territory and to fatten cattle upon them. The committee brought down a report that said in effect that the peanuts would grow and the cattle would do very well upon them but that the more peanuts that the cattle ate the more money the farmers would lose. After the committee had reported Bert and his brother Bill went to the Northern Territory in the parliamentary break to see if they could find a less costly way to develop peanut farms. They chained scrub themselves driving a borrowed pair of D8 tractors. Not many MPs would do that! Bert's instinctive doubts about Government utopianism can only have been reinforced by this experience. He was later to be a sharp critic of that economic fiasco, the Ord irrigation scheme. He knew little about irrigation but, when all about were suffering that loss of reticence that is so often associated with the expenditure of other people's money, 'Knocker Kelly' would ask questions of people who understood an issue, in that case irrigation. There is much nonsense talked about the role of 'vision' in politics and critics accused him periodically of being 'a little Australian'.

He claimed to have had it explained to him while visiting Queensland that the Northern Territory would never be able to sell peanuts for human consumption so long as Charlie Adermann, the Minister for Agriculture, represented Kingaroy. Bert discovered that the Queensland producers were subsidised by alone being permitted to import duty-free peanut oil to mix with their product. I do not believe that Bert can have been quite as surprised as he pretended. The monopoly position of sugar-growers and refiners – and peanuts were the same – had led Shann, in his *Economic History*, to compare Queensland to the plantation-economy of the American South, before the Civil War.[37] Shann had been a friend and adviser to WS Kelly and Bert was well acquainted with his writings from before he went to Canberra. It was no doubt healthy that he should be reminded, however, that the political corruption that produced the tariff for Melbourne had its counterparts elsewhere.

[37] Shaun Kenaelly, unpublished

In 1961 Bert travelled to the United Kingdom to address the annual Conference of the British Farmers Economic Society. Shaun Kenaelly describes the speech as representing a watershed for Bert. It was an important speech that probably for the first time presented him with the difficulties of speaking on behalf of his nation. It was not an opportunity to conduct a domestic argument but an opportunity to put the domestic argument in a philosophical and an international context, if he could do so while not undermining his Government before an overseas audience. He achieved all these things and no doubt disciplined his own thinking in the process. On similar occasions I know that I was forced to assess my arguments. At one point he departed from his text to tell this story. He was to use it on other occasions, one of which was to throw a spluttering translator service at the Council of Europe into disarray. As Kenaelly repeats it:

> The story was about that legendary Australian couple Dave and Mabel, who came to Sydney from the bush and stayed at a hotel where the plumbing was much different to what they were used to at home. At 10 o'clock Mabel complained of feeling thirsty so Dave went out and got her a glass of water. At 11 o'clock she was still thirsty so he got her another glass of water. At 12 o'clock the same thing happened and when Dave this time came back with an empty glass, Mabel asked 'What's wrong, Dave?' and he replied 'There is someone sitting on the well!' And after about three minutes, when the laughter had died down, I added `And you sods are sitting on our well!

The 'well' was Australia's opportunity to export, the 'water' foreign exchange with which to buy British imports and the 'someone sitting' was the British Government. Bert's humour was never wasted.

From early in his parliamentary life Bert 'worked the media'. Most politicians do but, unlike most politicians, Bert's efforts to gain media recognition were motivated not by the desire to be re-elected but to gain public backing for his ideas. Like the think tanks discussed in Chapter 5 he understood, probably instinctively, that his was but a small voice in need of much amplification or, in the language of the think tanks, all that he could do was to feed the right ideas into conduits that already operated. No doubt it was because his intentions were not self-serving that journalists gave him respect which they did not accord to most MPs. What is more, in his blacker moments he must surely have looked upon electoral defeat as merciful release with honour. Later, with less cause, I did.

Politicians without self-doubt, if half credible, are potentially dangerous. On the other hand, not to run the risk of being periodically wrong is to ensure that one does nothing useful. Self-doubt is thus a heavy incubus and all but the most self-confident crusaders crave indications that they are not latter-day Don Quixotes. It is not just a matter of being right, moreover. One can sometimes be reasonably sure of that merely by following expert opinion. To explain it all to others and to avoid credibility-sapping gaffes the crusader needs to understand his cause. Kenaelly reports a diary entry in which Bert laments 'I am afraid I came into Parliament with an ordinary farmer's education and I find it quite exhausting trying to keep up with all the economic theories which I am

expected to know about'. He, therefore, spent long hours, with the help of *Samuelson*, the most commonly employed undergraduate's textbook of the time, to educate himself in at least mainstream economics. Although over time he was to benefit from the assistance of very many senior economists (perhaps even a majority of them) he also became significantly his own expert. Economists respected him sufficiently to argue with him. I once heard three take him to task at a dinner engagement for what they had believed was an erroneous conclusion that he had reached in one of his newspaper articles.

Following Menzies' one-seat win in 1961, the Party returned to Canberra in poor psychological shape and recrimination was rife. The Country Party was relatively stronger within the Coalition and McEwen was pressing for higher protection. McEwen sought a return to import licensing but the Treasury view opposing this and Australia's membership of the GATT, which proscribed import licensing, prevailed. Instead the Government adopted tariff quotas and a system of 'temporary assistance' to be granted on the advice of a Special Advisory Authority (SAA). The rationale was to fast-track decisions but the principal motivation was no doubt to avoid public disclosure by by-passing the public inquiry processes of the Tariff Board. (Tariff quotas place a prohibitively high tariff upon an import and allow limited entry to favoured quota holders. These quotas allowed the possessors to sell at hugely marked-up prices, albeit on a limited quantity of imported goods. The quotas traded for sometimes remarkably high prices and untaxed capital gains.)

The campaign conducted by Bert Kelly in 1961 to protect and preserve the integrity of the public inquiry process was not as detailed as, for instance, that organised by the Dries against the motor car protection in 1981. It was, however, similar in most important respects and serves as the archetypal example of others that it would be too tedious to describe in detail. He faced much the same dilemmas and had much the same sort of opportunities as did the parliamentary Dries from 1978 to 1983 but, unlike those MPs who were to rely heavily on mutual encouragement and shared work-load, Bert was virtually on his own within the parliament. I remain in awe of what he achieved.

Returning to Canberra for the new parliament he sought advice from Ged Chislett, economist to the Australian Woolgrowers and Graziers Council with an excellent knowledge of Country Party thinking, and Dick Boyer of the Tariff Board. This advice not only gave him a better idea of what to expect from the Government but also gave him confidence that he really did understand the issue itself. Throughout his long campaign his knowledge of how to get, recognise and use good advice was among his greatest strengths.

Bert had intended to go on the attack at the party meeting on the morning of his meeting with Boyer and later again that day in the parliament. He was, however, confronted by political considerations and instead ended up defending the Government facing a cock-a-hoop Labor Party on a confidence motion. This type of situation is not uncommon and to have attacked the Government while the confidence motion was hanging over its head would have cost him the support of the people he most needed to convince. Nevertheless, his failure to

proceed probably was not understood by those outside the parliament who might have wondered if he had lost his courage.

However much in disagreement, backbenchers do not normally ambush their own front bench. Kelly, therefore, sought an appointment with McEwen who nevertheless went overseas without responding to the request.[38] The care with which Kelly played the game by the established rules of his party was to be a source of considerable strength noted by future Dries. I believe that any competent Minister of my day would have made time for that meeting but, if anecdote be sufficient guide, Ministerial arrogance was a bigger problem then than in Fraser's time. McEwen's attitude would have been different had Bert possessed a vote in the Country Party room.

Bert took an opportunity to stir up the South Australian Graziers, telling them to get behind Chislett. Such networking was a feature of each dry campaign as it was no doubt of wet campaigns. Kenaelly catalogues another feature of this campaign that was also a feature of every campaign that I was associated with. That was the difficulty in establishing quickly what Cabinet was up to and whether there were divisions within it that might be exploited. Bits of information would dribble out but Coalition Ministers were very reluctant to breach Cabinet secrecy.

When, in the party room, a week later, Kelly raised the impending changes to the means by which tariffs would be set, McEwen was overseas. On the day that was an advantage. Menzies conceded that Bert's points had substance and agreed to make a statement on the following week. (If Bert was wise to take such a vague undertaking seriously, then he was at least in that one sense better placed than were Dries of twenty years on.) He devoted the week to lobbying – it is a long process and he did not have the advantage of sharing the workload.

By the next week he had gleaned enough information to know that he would not like the impending legislation. He worked out his party room tactics with Tasmanian Senator Reg Wright, an erratic but gutsy ally. Bert was called first and made what he believed was a fair fist of frightening the Minister immediately responsible, Denham Henty, but Menzies intervened last and placated the party room with the promise of a general inquiry. When the backbenchers came to read the actual legislation they concluded that Henty had misled them. That too was normal in my day but we had the advantage of committee scrutiny of the actual bills before the party meeting and Dries could arrange to have a member attend most relevant committees. Bert told Alex Downer, who would have told Menzies, that in light of the proposals he might have to speak and vote against the Government. Years later we still sought out susceptible Ministers to scare.

An exceptional event now occurred. Bert, no doubt honouring an understanding, declined to confide it even in his diary. He had sought and gained a meeting with Menzies at which Menzies seems to have told Bert of his difficulty in dealing with McEwen. They further talked on the plane to Melbourne. My reading

[38] Shaun Kenaelly, unpublished

between the lines is that Menzies offered him encouragement but no help. So long as he did not imperil the Government, Bert was made free to criticise but he was on his own. Whatever took place, I can vouch for Bert Kelly's high regard for Menzies beyond the latter's death.

When the Tariff Bill was introduced Bert spoke against its provisions but did not cross the floor. The Government's majority was one. There was no room to grandstand. Had he done so, it would have posed a dilemma for Labor which was as protectionist as the Coalition. My guess is that in the heat of the moment it would have defeated the Government and at least discrediting it. However, upon reintroduction of the measure, under pressure from its union constituency, it would have voted in a block with the Government and that would not have helped the Tariff Board or the cause of low protection. Bert had previously had Sir Leslie Melville, the chairman of the Tariff Board, read his intended speech – for safety's sake. If the speech had merely pointed to the inefficiency of protection and consequent depression of living standards it would have received less notice. Kelly contended that the Government's way of granting the privilege to raise prices to some at the expense of others was capricious, not monitored and wrong! His indictment was fundamentally a moral one.

It received substantial press coverage. I would be surprised if someone from the Tariff Board had not alerted members of the press gallery that the speech was about to be made but that will never be known. *The Age* described it as one of the strongest made by a Government member since the Menzies Government took office. Both *The Age* and *The Sydney Morning Herald* addressed it in editorials, the surest indication that they realised its importance. *The Age*, despite its protectionist tradition, commented:

> It may be that Mr. Kelly detects graver dangers than are, in fact, likely or possible. But that does not lessen the worth of his warning or of his attempt to defend the long-established and well-tried principle of independent inquiry into tariff preferences. Certain groups of manufacturers have mounted a sustained campaign for the reintroduction of import restrictions in one form or another and the pressure is continuing now that partial success has been won.

The Sydney Morning Herald took a stronger line.

> Mr. Kelly rightly condemns the Minister's power to select special advisers to investigate claims at private hearings. Whatever spokesmen for the Government may claim, the Tariff Board's authority is being seriously weakened. Neither Ministers nor public officials can be trusted to pay sufficient attention to the efficiency of claimants and the economic nature of their activities. An independent and experienced Tariff Board is an indispensable safeguard against the inevitable log-rolling that occurs. Mr. Kelly's chief contribution, however, has been to strip some of the pretence from an abject political retreat.

The Associated Chambers of Manufactures of Australia responded to the speech with a published letter to the Editor of *The Age*. It would have served its cause better if, at that stage, it had not given Bert the additional standing.

The staff and boards of industry associations, however, are as prone as politicians to grandstanding before their constituencies.

McEwen was still away and Menzies made a mild defence of Government policy acknowledging that the legislation would allow for quantitative restrictions. He described Bert as 'my thoughtful and able friend' but did not answer Bert's criticisms, for which failure The *Sydney Morning Herald* took him to task. Malcolm Fraser and Harry Turner, both Government backbench MPs, identified themselves with Bert's line. Fraser feared that quantitative restrictions might 'spread like a cancer' through the body of Australian industry.

It is worth noting in passing that the Department of Trade, despite its battle with the Tariff Board, had given Bert all the technical assistance that he sought – there is a certain professionalism among our senior civil servants that begets respect.

After the passage of the Tariff Bill, Kelly persisted in the face of mounting denigration. Kenaelly records:

> Arthur Calwell, then Leader of the Opposition, called him over one day, after Bert had been given a fairly rough reception by the House, including the rage of Government supporters. Calwell told him: 'I don't agree with what you are saying, Bert, but I will defend your right to say it. Don't let them frighten you.'

I can but assume that Bert felt both flattered and encouraged by that advice. I would have been. It is a measure of the vitriol that was poured upon Bert that Calwell should have felt constrained to offer it. The circumstance contrasts sharply with the experience of later dry MPs. We faced orchestrated abuse from particularly the textile, motor and airline lobbies but our parliamentary colleagues and parliamentary opponents neither abused nor slandered us.

Shaun Kenaelly quotes from an interview of Bert Kelly by the Parliamentary Library, in 1986:

> I don't know really, it's a shameful period. The Liberal Ministers used to come to me privately and urge me to keep on going. They were activated more by party politics than economic principles, I fear. They reckoned the Country Party was getting too much influence at the expense of the Liberal Party, and that's what was really worrying them. Les Bury was one of those that understood why it was important that our cost structure, fostered by a carelessly administered tariff system, was getting out of hand, and everybody can now see the damage that was done. But the Liberals were frightened of McEwen, that's the truth of it. He was a bonny fighter and he could clobber you like hell. McMahon knew the damage that was being done but McEwen wasn't easy to handle. He had a religious zeal about him and he wasn't choosy the way he went about clobbering people.

It was indeed a shameful period.

While this furore was still running, Bert found himself involved in a dispute within both party room and Parliament over protection for the dairy industry. It was, if anything, more bitter and Bert worried that he might come to be regarded within the Coalition as a mere troublemaker. The patience of the party room is limited. You can tell when you are losing its attention as members turn to their newspapers while you are speaking and Governments do not listen when your colleagues ignore you. Credibility within it must, therefore, be husbanded.

Bert tried to appeal across the House. At the time only Reg Pollard seemed interested but we know from later political events that he must have at some point impressed Gough Whitlam.

Bert Kelly was a realist defending the integrity of the tariff-setting process and a believer in lower protection. He cautioned me against claiming absolute purity in the matter of trade. Whether this position was tactical – a free-trader was more readily ridiculed and on any journey concentration must centre upon the next not the last step – or whether it, being the position he had inherited from his father, was a position that he barely questioned, I don't know. His logic, however, if taken to its conclusion, was free trade.

Bert developed his contacts, indeed he cultivated them assiduously. As Temporary Assistance Authority (TAA) decisions usurped the powers of the Tariff Board, both importers and manufacturers were caught in what were no doubt the unintended consequences of its rulings. One firm's protection is necessarily another's cost and not all who engage in commerce are so honourable that their 'information' may be relied upon. Bert found cases of importers crippled by tariff-duties imposed by the TAA on the grounds that a local manufacturer was making an identical product when it was actually substantially different from the import. Other manufacturers, whose operations relied upon imported materials or components, found that their operations were unexpectedly prevented, sometimes in favour of another manufacturer down the street. Businesses that lacked political patronage turned to the one federal MP whom they had heard was taking a sympathetic interest in their plight.

During an evening and the following morning in October 1962 Bert Kelly made sixteen prepared speeches challenging the preferments afforded several industries by the TAA. Neither I nor any of the parliamentary Dries of my time were to attempt anything comparable. And this was before the days when backbench MPs had staff to assist them. Although he no doubt had the help of Chislett, the AWGC's economist, the amount of preparation required must have sorely tried him.

He was, however, by now gathering support. Jim Forbes and Fred Chaney Snr (father of the Fred Chaney who was later Minister for Aboriginal Affairs and then Social Security) made a point of intervening whenever he seemed to be flagging. Reg Pollard from the Labor benches – probably the only other MP who had read most of the reports under debate – was in frequent agreement. Malcolm Fraser chipped in to question the temporary assistance 'required' by Australian Paper Manufacturers when it was making good profits. Even more significantly, he obtained the support of Hugh Leslie, the Country Party Member who held

what was to one day to be my seat of Moore. Given rising tempers within the Country Party, this intervention required some courage.

McEwen responded to Bert but only in general terms, avoiding the specific accusations. He did not manage to quite disguise his rising choler, a fact that a few journalists picked up. Press coverage was wide and supportive. The National Farmers Union, on behalf of its fourteen affiliates, weighed in with its support and it was the support that Kelly was enjoying among farmers' organisations that most worried the Country Party. It was, however, the businesses that approached him with tales of how duties on inputs, such as yarns and cloth, affected their ability to manufacture without themselves receiving added protection to allow them to raise consumers' prices that best demonstrated the ridiculous nature of the protective process that by-passed the Tariff Board.

For an evening and a morning parliament functioned as convention would have us believe it functions. Some Country Party MPs appreciated that Bert was going some way towards making them look unprincipled. With some sections of the press the Country Party and its successors were never, at least until Tim Fischer's leadership, quite to recover.

Bert Kelly was now to overstep the mark that Menzies could permit – the point where the feud might result in the Country Party withdrawing from the Coalition and allowing Labor into office. The Chairman of the Tariff Board, Sir Leslie Melville, was feuding with McEwen over the independence of the Board and the resources available to it to conduct its inquiries. Melville eventually came to regard his position as untenable and proffered his resignation. McEwen attempted to portray the resignation as a simple re-posting of civil servant. Bert (and Labor) attempted to bring its real causes into the open.

Labor opened the issue and Bert tried to raise it in the party room but was cut short by Menzies. Some days later he asked McEwen this question:

> Has the Minister studied the last paragraph of the Tariff Board's annual report in which the Board states that for staffing and 'other important reasons' it feels that the establishment of the Tariff Board should be separate from the Department of Trade? Does he know what are the 'other important reasons' referred to? Is the Minister considering the Board's suggestion that the establishments of the two bodies be separated? Is he aware that if this were done it would give the public greater confidence that the Board was not being subjected to pressure by the Department of Trade?

Bert knew what the only honest reply could be. It was loaded question of the 'have you stopped beating your wife' variety. The Hansard contains a milder version but the press gallery records that McEwen, whose temper got the better of him, concluded his reply:

> I think it ill becomes the honourable member to suggest that there is a want of confidence on the part of the public in the Tariff Board. I think this has been stimulated by the honourable member for Wakefield more than any other single person.

Bert sat there and took it (I was to learn that it is all that in such circumstances a backbencher can do.) The accusation, however, elicited cries of 'Shame' from Government benches. Bert records in his diary that even his opponents and members of the press told him that they resented McEwen's outburst. Press reportage of the question was wide, as was its analysis of Sir Leslie's resignation, and it was very critical of McEwen. Labor took up the attack and argument ensued over the tabling of the relevant correspondence, during which McEwen unwisely said that, although he would not table it, Sir Leslie was at liberty to make a statement of his own. Bert learned from Alan Carmody, the head of the Department of Trade, that Melville had prepared such a statement. When the statement did not eventuate, Kelly rang Carmody who was now very cagey.

Kelly's wish to square accounts with McEwen probably affected his judgement but not entirely. He prepared a statement for the party room. I cannot recall anyone bringing a written brief to a party meeting but perhaps some did. Although nominally private meetings, party rooms leak like sieves. He showed it to a close associate of Menzies who no doubt warned Menzies. When the time came to address the joint party meeting Bert received quite a bit of support but Menzies arose and descended upon him from a great height and gave McEwen the opportunity to do the same. That ended that debate! Such is politics. In the House Menzies maintained a lofty indifference.

Bert was able more cautiously to raise the Melville issue again in the party room. He also delivered a lengthy and learned speech in the House dealing with the history and consequences of quantitative restrictions and of the place of a Tariff Board that was independent of Government direction. He had succeeded in defining principles that were to influence Whitlam when twelve years later Labor was to legislate for the Industries Assistance Commission.

The efforts of many people turned the protection debate, but among them Bert, a man of extraordinary tenacity, stands out. 1962 marked the beginnings of a watershed. Radical legislative change would have to wait for Bob Hawke and Paul Keating but freer trade was never from that time to be without informed advocates.

This passage, made to conclude a long speech, appealed to institutional morality. It marks Bert Kelly as what was later known as dry:

> I feel that we are drifting away from the straight and narrow path of fiscal rectitude. I do not pretend that treading that path is ever easy, and I have a great deal of sympathy with the Minister in this, but if we wander off the path of fiscal rectitude in the search of easy popularity, then we will certainly jeopardise our present successful system, which has played an important part in the development of Australia.

The issues concerned efficiency but more fundamentally they concerned propriety and the employment of Government powers held in trust.

After his success in 1962 Bert was given fewer opportunities to use the parliament to tilt at big names. Although his influence within it had probably reached its height by 1963, his influence outside continued to grow. He had developed lasting respect in the press gallery and among editors. R.W.C.

Anderson, the director-general of the Associated Chambers of Manufactures of Australia (ACMA), unwisely from the standpoint of protected manufacturers, decided to take Bert on in sustained polemical exchange. Bert would make a well-reported speech of the moment. Reply came then not from the Government but dutifully from Anderson of the ACMA. This provided Kelly with the publicity that he needed to maintain interest in the case for freer trade. He told me that during these years Anderson, albeit unwittingly, gave him more much-needed assistance than anybody else. It is an axiom to some Dries that, when one is confident of one's case, criticism should be courted. I remain amazed that Anderson seems never to have understood that he was being goaded into responding. McEwen, who was never unprepared to sacrifice pawns, may have encouraged him, but why?

In one way Bert's position had improved. At the 1963 election the Coalition increased its majority from one to twenty two and the Country Party's relative influence in the Coalition was weakened. Menzies was, therefore, in a position to give him more leeway. It is interesting to speculate upon whether the Bert's exposure of McEwen's weaknesses was not another reason for the changed balance of influence within the Coalition. If so, then it was no part of his design.

Beginning with a speech at Orange, McEwen began a protracted campaign to develop a national profile to challenge Liberal dominance or perhaps to make a Country Party-Labor Coalition possible. In the coming years the Country Party was to change its name twice. The Orange speech itself was xenophobic and populist, not unlike those of Pauline Hanson in the late 1990s. The Country Party did a deal with Labor for Western Australian seats in which Labor was to get Forrest on Country Party preferences and the Country Party was to hold Canning and win Moore on Labor Party preferences. It was a period of much animosity between the coalition partners.

From 1963 to 1965 Bert Kelly, nevertheless, slowly lost ground with his parliamentary colleagues. McEwen had succeeded in painting him a free trader, a crank and one who was unlikely to win. In those days, the free trade goal and sharp reduction of protection later successfully prosecuted by Hawke and Keating were unthinkable, despite the big worldwide reductions in protection following the Kennedy Round of the GATT showing how isolated Australia was. The charge made credibly that he could never win cost him support. People do not follow causes without hope. His portrayal as a crank cost him credibility and in politics credibility is everything. It is for these years, while he pressed on, now losing ground, that I admire him most.

Prior to the 1964 election Bert Kelly received the following press account of a speech that McEwen had made to the employees of Bruck Mills:

> Mr. McEwen today pledged himself to 'look after' Bruck Mills. He made the promise at a lunch-hour address to 300 employees at the mill. He said, 'As long as I am Minister for Trade, this factory will be safe. I'm not saying it won't be safe under anybody else. Let the other bloke talk for himself. But as long as I am Minister for Trade, I will look after this industry as I have today.'

So much for the objectivity and fairness of protection procedures. After the election Bert used it in a tariff debate to illustrate the contrast between what was actually happening and Menzies' promise that protection should serve the national interest. McEwen rose in fury but Charlie Adermann, the Minister for Primary Industry, grabbed him by the coat tails and pulled him back, 'Steady, Jack, Steady.' The episode was seen from the gallery and reported.

Bert had on many occasions attacked the statutory marketing schemes and was turning more of his attention to domestic protection, that is, to those anti-competitive measures not involving internationally traded goods, although he did not take up health care, legal services, education or aviation. The following question without notice to Charlie Adermann concerning a new egg-marketing bill illustrates his style. He asked whether the minister

> is aware that most of the eggs produced in South Australia are produced by flocks containing fewer than 50 birds. Is the levy which, I understand, is to be the basis of the projected egg-marketing scheme, to be paid on all flocks containing over 20 birds? Will this mean that each flock will have to be counted by an inspector? Will the Minister tell me how this will be done in my case, as most of my fowls live either in the header or in trees?

The House erupted in laughter and the Bill was given a considerable rewriting.

Another excerpt from Hansard illustrates another aspect of him:

> Australia was not developed in the past by singing 'Oh, how beautiful to sit in the shade'. It was developed by those who went out and did things. A bit more of such a spirit and attitude in this House and a bit less careless, easy criticism about free trade would be, I think, of general benefit to our country.

That was moralising pure and simple in the manner of his Methodist forebears. All of his issues were at bottom moral issues. Perhaps as much may be said of all political issues, but Bert was exceptional in that instinctively he asked first about anything, is it right, and he could moralise without sounding holier-than-thou. I never heard Bert mention the Levellers or John Lilburne, and I wonder if he realised how much of what he stood for had seen a brief flowering as early as 1648. He was, however, well enough versed in more recent liberal tradition. Among his difficulties was the fact that the Liberal Party was not.

As might be expected Bert gave evidence to the Vernon Committee. His evidence of course dealt with the necessity of maintaining a non-political tariff setting process and with the dangers of quantitative restrictions. He took up his opponents' national development agenda but argued that it had no future in Australian isolationism.

> How long can we survive, isolated as we are, on the edge of Asia, with our standard of living continually rising, while the gap between our standard of living and that of our neighbours continues to widen?

He was wrong about the gap in our living standards and that of our neighbours. It was soon to become evident that our neighbours were catching up very quickly indeed. The adverse consequences of our irrational economics were about to become more evident than even he had anticipated. He however anticipated by twenty years another Hawke-Keating thrust – the necessity of trading with Asia. When the Vernon Report was eventually tabled in 1965, it contained much that he, many of his allies outside the parliament, Treasury and indeed any dry, found

unpalatable. It nevertheless supported open inquiry before protection was granted. Bert's stand had consistently been that modest protection was acceptable but only when enacted through a process that was open and by which the public was protected from self-interested lobbyists.

Menzies at last asserted his supremacy over McEwen, rejecting the report. The debate had moved on, leaving Bert in its wake. If Bert had adopted the more free trade line towards which his logic pointed, in the climate of the time he would probably have achieved little. Bert Kelly will be remembered not just for his contribution to trade policy – that is, for what he changed – but also for why he changed it. He protected, nurtured and preserved a philosophy. He was remarkably consistent. He regarded restrictions on immigration in much the same light as he saw trade-barriers.

Bert was writing a newspaper column before he entered parliament. He possessed a rare and considerable talent that he probably inherited more from his mother than his much more widely-published father. His laconic wit for many years earned him a huge following and the fury of protected manufacturers. He began *Dave's Diary*, his first newspaper column, in the 1940s. That column, a whimsical account of the conversations of a young farmer, Dave, with his neighbour Clarkson, like all of his writings, was intended to instruct. Originally the instruction was in farming practice rather than national affairs but that was to change. While conducting his epic campaign against the Temporary Assistance Authority he used Dave's conversations with Clarkson, who was by then a politician, to explain the current ramifications of industry protection to readers of *The Stock Journal*.

He began writing his weekly *Modest Member*, later *Modest Farmer* columns for *Australian Financial Review*. He was to write over 800. In these his principle cast comprised Mavis the Modest Member's wife, Fred the farmer and Eccles the economist. There was fun in all of it but here too he never wrote just for fun. Every article had its lesson. The best of these articles are gathered under the titles *One More Nail*[39] and *Economics Made Easy*

A partial quotation from one of the better known of the less flippant chapters gives something of their flavour. It follows his 1964 visit to two big factories in Bombay, as a member of a Parliamentary delegation, one reconstituting skim milk, the other manufacturing cotton sheeting.

> Certainly Australia had plenty of skimmed milk powder to sell them. I asked them if they had any troubles and they said only one: 'We like your skim milk powder, but we have difficulty in getting enough foreign exchange so that we can buy enough of it.'

Next, he tells of visiting a cotton sheeting factory and asking them if they had any troubles:

[39] Brolga Books, 1978

> 'Only one,' they said. 'You people in Australia put a tariff of 55% against our sheets so that we can't sell them in your country and this prevents us from earning foreign exchange.'
>
> I find it so difficult to see the sense in all this. The Australian dairy farmer can't sell his skim milk powder, the Australian housewife has to buy dear sheets, the Indian kids can't get milk and the efficient Indian sheet factory can't make sheets. And this is brought about by the good and wise Government which Mavis says I can't criticise.

Bert was aware of the role that trade barriers had played in inflicting the First and particularly the Second World Wars upon the world. As Sir Hal Colebatch had asserted well before WW II, Kelly reminded us again that 'If goods cannot cross frontiers armies will'.

Menzies retired and after the 1966 election Harold Holt appointed Bert to the Ministry. This, for as long as his Ministry lasted, silenced him in public debate.

Bert had understood the meaning of 'economic rectitude' long before it was popular to talk of free markets and balanced budgets; in particular he understood, even by the mid-sixties, that unless Australians restructured the supply side of their economy, then no amount of macro-economic wizardry could save us from declining relative living standards. To establish its nature he often quoted ministers' own words. It is remarkable that, in spite of the many thousands of his own words recorded in readily accessible form in newspapers and in Hansard, and in spite of his practice of hoisting others with their own petards, no one very effectivly hoist Bert with his. He was too consistent.

In 1991, Paul Keating observed to Bert that, if he and everyone else had listened to him 20 years before, then Australia would not be in the mess it was.[40] By then the wheel had turned full circle: Bert had become popular. In 1988 the general managers of BHP, Western Mining, CRA and Mount Isa Mines had hosted a dinner to honour him. The Great Hall of the Victorian Art Centre was filled. Many of Kelly's old allies came to do him honour as did several of his old opponents. I thought that some of the latter looked a mite uncomfortable and on that score I confess to having been amused.

This chapter has been the account of an exceptionally tenacious and honourable man and how he employed the opportunities and the responsibilities of a parliamentarian to further the public good. It should offer instruction to any backbench MP, who wishes to change the course of history for the better. Over the long haul Bert had been effective in doing the only political thing that really mattered: determining public policy. He had understood and employed Parliament's educative function. He had understood that while getting the numbers may change the people in power, public policy that outlasts them must be changed by changing public opinion. He therefore

[40] Shaun Kenneally, unpublished

spoke directly to the people. When the Centre for Independent Studies and Centre 2000 instituted the Adam Smith award, he was the obvious first recipient.

Bert, for a long time a lonely dry, was an exemplar to all who followed. Plenty of people told him in private that they agreed with him but ideas that remain private don't change much. As Bert saw the end of his own parliamentary career approaching he encouraged younger MPs – his chickens. I had the honour of being taught and tyrannised by him and in moments of greatest doubt I was to ask myself, would Bert approve?

His aims always transcended the next election. There was an occasion during the 1975 Bass by-election campaign when Vic Garland, then our whip, was urging all in the party room to go to Tasmania and assist. Launceston, the only major population centre in Bass, was home to textile manufacturing companies and the Opposition campaign concentrated upon opposition to Whitlam's 25% tariff cut. Bert told the Party Room that he was prepared to go but that he felt he should warn the whip that he would be 'on Gough's side'. Fraser was quick to say that he was excused. Incidents like that one caused politicians who did not understand or would not accept his aims to aver that Bert was without political judgment, yet he had more influence on public policy than most who climb the political greasy pole to the top.

Few could have endured the disappointments, setbacks and spectacles of sheer cowardice in high places that Bert Kelly witnessed, and still pressed on. He hand-wrote the following by Arthur Hugh Clough on the flyleaf of my copy of *One More Nail*.

> Say not, the struggle naught availeth,
> The labour and the wounds are vain,
> The enemy faints not, nor faileth,
> And as things have been they remain.
>
> For while the tired waves, vainly breaking,
> Seem here no painful inch to gain,
> Far back, through creeks and inlets making,
> Comes silent, flooding in, the main.
>
> And not by eastern windows only,
> When daylight comes, comes in the light;
> In front the sun climbs slow, how slowly!
> But westward, look, the land is bright.

He did little without a purpose: it was intended to keep my nose to the grindstone. I have met no man in my now not-so-short life that I have admired more than Bert Kelly. There is nothing in my contact with public life of which I am more proud than that I think Kelly came to believe that I did, despite much backsliding, pass muster. Disinterested tippler though I am, his ghost might appreciate that I would be afraid to get drunk with it lest I collapse laughing or in tears contemplating my own shortcomings.

Chapter 4
The Dry Agenda around 1980

Men are qualified for civil liberty in exact proportion to their disposition to put moral chains upon their own appetites; in proportion as their love of justice is above their rapacity; in proportion as their soundness and sobriety of understanding is above their vanity and presumption; in proportion as they are more disposed to listen to the counsels of the wise and good, in preference to the flattery of knaves. Society cannot exist unless a controlling power upon will and appetite be placed somewhere, and the less of it there is within, the more there must be without.

Edmund Burke

Dries successes and failures can be assessed only against what they actually campaigned for.

Had Australian Dries not been concerned about poor economic performance they would probably never have found the zeal to campaign. Initially and predominantly they addressed only those issues with strongest links to the economic. Asked in the early 1980s by *National Times* journalists Paul Kelly and Deborah Snow what Dries really stood for, Jim Carlton summarised:

> We believe in the competitive market. We don't equate private enterprise with competitive enterprise. Therefore, we see an active role for the Government in promoting competition. We argue for restraint in Government expenditure, direction of welfare towards the truly needy (we oppose middle class welfare) and we believe in firm monetary policy.
>
> We look at the overall public-sector borrowing requirement, not just the deficit. We want economic growth and we are worried about the inflexibility of the labour market.

From the late 1970s the parliamentary Dries in the Coalition in Canberra appreciated that the dominant *weltanschauung* would ultimately determine public policy. This would, they knew, shape policies for new issues (such as Internet commerce) and new circumstances (such as the Asian meltdown) as well as those that were already upon the Australian community. They therefore determined to appeal to the public over the heads of their Ministers despite the political consequences.

Two accounts of the dry agenda are available and there are many records of portions of it. One is a booklet I published in 1982. It had a cover that one press wag called as 'blue as Andrew Peacock's shirts' and became known as 'The Blue Book'. The other is *Australia at the Crossroads* co-authored by Wolfgang Kasper, Professor of Economics with University of NSW at the Royal Military College Duntroon; John Freebairn, Professor of Agricultural Economics at La Trobe University; Doug Hocking, Chief Economist at Shell Australia; Bob O'Neil, Professorial Fellow in International Relations at the Australian National University and Richard Blandy, Professor of Economics at Flinders University.[41]

[41] Kasper et al, *Australia at the Crossroads*, Harcourt, Brace Jovanovich Group, 1980,

Australia at the Crossroads

'Crossroads' set out to subvert the 'Old Establishment' of money, private schools and clubs and the 'New Establishment' of unions, media and academics. It described economic, demographic and social trends as they were in 1980, projected those that were beyond Australian policy influence to 2000 and then suggested two contrasting alternative scenarios. In the first of these economic reform was avoided, Australians remained highly regulated and privilege prevailed over community interests. In the second, policy allows markets to find their own price levels without direct intervention and protects the incomes of the population at large by economic growth, high employment and direct transfers of income.[42] In the second Australians would experience:

- More international trade;
- More structural change wrought by new technologies and the removal of protection;
- Fewer restrictions on international and domestic capital flows;
- Resolute application of anti-monopoly and anti-restrictive trade practices legislation;
- Deregulation of many markets and other activities, especially in the area of entry by persons and firms that wish to compete;
- More variation in relative wages in response to market forces;
- Reduction of the Government's role with services, including education, health and welfare; and
- Expansion of the Government's role in the provision of income maintenance through negative income tax, endowment and voucher schemes.

The book rounded off with amusing letters from each author to one of five hypothetical but typical Australians. These offer a summary of the publication's advocacy.

Doug Hocking, the Chief Economist with Shell Australia, much the oldest of the authors and avuncular by nature, writes to the imaginary Barbara Donato, a third-generation Australian just graduated from university. He begins with an amusing attempt by the elderly to show that he understands the concerns of the young, castigates her for not reading his book and then:

> We believe that if our policy-makers adopt what we have called the Libertarian approach, your problems and those of many others will be reasonably well resolved. If it's as simple as all that, why the doubts? You may ask. Unfortunately good policies often require hard choices. Long-term benefits so often can be secured only at the cost of sacrifices today.
>
> Broadly speaking, we advocate a policy of minimum intervention by Governments in markets which can be relied on to operate reasonably competitively. Where Governments have already erected barriers to competition, such as high tariff walls, we urge their speedy dismantling.
>
> The 'energy crisis', we fear, has been exacerbated by the unwillingness of Governments to allow market pressures to sort out imbalances between demand

[42] ibid p 215

> and supply, though I must add that our own Government has, in recent years, taken some out-of-character steps to rectify the most glaring absurdities….
>
> The Libertarian approach which we advocate means allowing competitive market forces to operate more freely between countries as well as between firms within a country. We believe that we have demonstrated that this policy would, in the long run, result in more, not fewer employment opportunities, especially for the young who are, after all, more adaptable and enterprising than people of my age.

Wolfgang Kasper, an Australian citizen by choice, was an academic economist who had discovered his love of freedom and Austrian economics in 1950s Germany where he had worked with the German Council of Economic Advisers and the Kiel Institute. An optimistic enthusiast who devoted a lifetime to the liberal cause, he addressed his letter to John F Watson Jr, a dynamic young American interested in investing in Australia:

> I agree with you that Australia is a country of great economic potential and I share, to a degree, your bewilderment about why this potential has not been fully exploited.
>
> … I am somewhat more optimistic than you are. … So far, I have seen little genuine reform beyond the veneer of rhetoric. However, if you lived in Australia you would note that the stagnation of the 1970s has induced many people to re-evaluate long-unquestioned precepts and attitudes….
>
> So you should continue to keep an eye on Australia in the next few years and watch how things develop. At the moment, I probably would not feel too confident about putting my money into Australia, but if you detect that tariffs are cut, capital exchange controls are eased and competition policy sharpened, you can take this as a harbinger of a new start and the beginning of a virtuous circle in which many of the present problems, like the strike problem you mention, will evaporate. If these signs become visible, bet heavily on this country! The opportunities for a small, innovative firm like yours could quickly become excellent here, much better than in Europe and probably America. And if you want to expand into the West Pacific, you will probably feel more at ease in the long run with Australia's political and social climate than with having your investment in a riskier Asian location. You will find the higher wage levels (but also the higher productivity) of Australia and the cost of business trips North a small price to pay for the security of a politically stable country. And your wife and children will find our side of the Pacific a very pleasant place to live in.

John Freebairn, the agricultural economist, steeped in price theory, careful and not prone to exaggeration, wrote to Charles MacIntyre, general manager of a large Australian firm producing manufactures.

> Australia is well endowed with land, mineral and energy resources. She has a highly educated population with a diversity of skills and a record of success. She is in proximity to the rapidly developing economies of the Pacific Basin, and she has a stable political system.

> There are … many factors beyond the control of Australian Governments and businessmen…[n]evertheless, there are several ways in which you and Government can actively influence the future direction of your business, the state of the economy, and the well-being of the population….
>
> Our alternative scenario poses a world of change, but much of it predictable and hence manageable, which will quickly reward you and other innovative managers. Tariffs and other trade restrictions will be reduced by known fixed amounts over the next five years. Interstate trade costs, particularly coastal shipping will be reduced. There will be deregulation and vigorous technological innovation in all sectors of the economy. Restrictions on capital flows will be dismantled. There will be less need to spend time and money lobbying politicians, filling in forms and attending Government inquiries. To survive you will have to cope with competition from the rest of the world and you will have to adopt new technology at least as quickly as your competitors….
>
> Finally, we cannot avoid change, so why not face the problem directly and attempt to make the most of the available opportunities?

The easy-going Dick Blandy, the expert in labour relations, chose the hypothetical beer-swilling process-worker, Norman L. Beinit (a send-up of Norm the central character of the Government-sponsored *Life Be In It* television and print program intended to encourage healthy lifestyles.)

> When you asked me at the pub what was the strength of *Australia at the Crossroads* for the ordinary Australian, you rather caught me off guard … especially as the Windies were none for plenty…. So let me try again.
>
> I agree that the country doesn't seem to be doing too well lately…. On the face of it, this does not seem like much of a time to be talking about shaking things up. Better wait for calmer weather.
>
> Well, the truth is that the weather doesn't look like getting calmer for a while and certainly not by itself. On the other hand, if we re-rig the boat a bit, we could sail through this turbulent patch of weather rather better. As a matter of fact, you are one of the Australians on a 'no risk' option from our having a go at re-rigging the boat. The job you are doing as a process-worker isn't all that skilled. You've moved jobs several times, and provided there are jobs around, you wouldn't be surprised if you moved a few more times. If we stand pat, there aren't going to be so many jobs for you to choose from as there will be if we accept some changes…. The big difference for you and Edna (and little Kenny and the girls) [however] is that you will have a much higher living standard if we re-rig the boat now….
>
> … if you become unemployed or chronically sick … under the new welfare system proposed in our book you would never fall below the poverty line because you would receive a negative income tax….
>
> … it's Kenny's schooling that Edna is a bit concerned about because of what the papers are saying about kids not learning the 3 Rs properly these days. We suggest

> that you could do more about your concern if the Government were to give you a voucher to pay for Kenny's schooling wherever you wanted ….
>
> Most of us, I reckon, might be pretty happy with a scheme in which we ourselves paid for health expenses up to 5% of our income and were then covered 100%….

Bob O'Neil, the defence expert, addresses a fledgling Federal MP. Had I received such a letter six years earlier when I entered the Federal Parliament, I would have been a better MP sooner. After castigating him for being unduly hung up about the existence or otherwise of an immediate threat:

> In diplomatic terms, we will never achieve really warm acceptance as a regional partner while our representatives abroad are spending much of their time justifying tariff barriers, apologising for our inability to accept more Asians into Australia, and explaining why we do not consult other Governments in our neighbourhood on questions such as cheap airfares before we introduce contentious policies. … If we open up our regional relationships … the emphasis of our diplomacy will change from justification and apology to cooperation. Relationships will stand more securely through not being founded on the basis of fear, guilt and charity and more on that of mutual contribution to each other's prosperity. Regional political perceptions of Australia will incline away from the view that we are an alien intrusion and towards the realisation that, without our involvement, the region will be a worse place to live. …
>
> In social terms, the opening-up of the Australian system to the outside world can also contribute to wider regional acceptance and greater security in the long term. Australians whose major impact on the region is made by hordes of Ocker tourists chasing booze, girls and bargains [will have their country portrayed] as the South Africa of the West Pacific. …
>
> In military terms, a mercantilist Australia has to consider facing a wider range of threats with a weaker resource base…. Instead of bitter wrangles over whether we can afford an airborne early-warning system or an aircraft carrier … we can have both. …
>
> In addition … a libertarian Australia will be less Byzantine in the way it is governed. While the roles of lobby groups, public servants and politicians will all be important, the last group will have a better yardstick by which to evaluate the demands and advice of the former two.

'*Crossroads*' developed several attitudes that today are not exceptional but at the time were far from the mainstream.

The authors argued, 'Inflation, profit compression and institutional regulation of the capital market … divert substantial sums into private housing … [with] small output effect of a given investment.'[43] Strangely they did not in this context mention taxation that combined with inflation to impose penal rates on investments with specified

[43] Kasper et al, *Australia at the Crossroads*, Harcourt, Brace Jovanovich Group, 1980, p196

dollar values such as bank deposits but did not tax either capital gains made on the family home or an imputed rent. I was at the time fond of quoting an employee of a building society, who had told me that 'Australians are the best-housed unemployed in the world'. Dries attracted the considerable ire of the housing lobby.

The education lobby loved us even less. Education was managed to serve the interests of the providers rather than the students and pupils. The Crossroads authors mildly observed: 'The [OECD] study concluded that "it is the supply from the educational system rather than the needs of the economy which is the sharply dominating influence in the determination of levels of education for the different occupational categories."'[44]

They also wrote '… a mercantilist economy, with its relatively slow growth, will not be able to support a normal defence burden much greater than at present….the levels of technology used by the armed services will be constrained by the general level of economic capability of the nation.'[45] I once asked the older members of a CEDA audience in Melbourne why, since they had had the courage to bear arms for Australia, they were prepared to so weaken the economy that their sons would also be condemned to fly the equivalents of Wirraways against the equivalents of Zeros. I asked if they felt the outcome of the war would have been assured if the Japanese economy could have rebuilt the Japanese fleet after the battles of the Coral Sea and Midway? No reply was ventured.

Reflecting the conventional wisdom of the day and its origin as a study for Shell, Crossroads devoted considerable space to the energy crisis. It asserted that 'Liquid fuels are bound to become increasingly scarce in relation to demand and more expensive to produce' and 'We conclude that rising energy costs will have some adverse long-term effects on global economic growth'. The authors argued that adjustment was possible and would occur if Governments allowed it to happen but they did not contemplate the possibility that the energy crisis was already over. They possessed no crystal ball, but *Australia at the Crossroads* withstands the scrutiny of hindsight remarkably well.

The 'Crossroads' authors stated explicitly that Crossroads' two scenarios were not predictions but mere contrasted alternatives. Significant events, such as the sustained growth of the US economy, occurred that were not anticipated in either and of course their recommendations were not implemented immediately and completely. Nevertheless, I cannot resist comparing them with what actually occurred.

[44]ibid , p200
[45]ibid, p206

1973 –2000 Average Annual Growth

	Mercantilist 1975 – 2000[46]	*Libertarian 1975 – 2000*[47]	*Actual 1990s*
Agriculture	*2.5*	*4.0*	3.2
Mining	*3.7*	*8.0*	*4.1*
Manufacturing	*1.7*	*5.1*	*1.6*
Utilities & Construction	*2.6*	*5.0*	*2.8*
Trade etc	*2.5*	*4.9*	*3.5*
Admin, Dwellings & entertainment	*3.0*	*4.2*	*3.8*
Total	*2.5*	*4.9*	*3.4*
Per Capita	*1.7*	*3.8*	*2.8*

My Blue Book

The introduction of my Blue Book explains its origins and purpose:

> In a public speech last year, I criticised the Government's failure to maintain direction. Faced with a disgruntled backbencher, our Prime Minister is apt to suggest a task to keep him busy – the bigger the better.
>
> He asked me to write down my goals for Australia for the year 2000…. I am sufficiently convinced of the democratic nature of Australian society to believe that public perceptions of where we ought to go will in the end have a profound influence on where we get to….
>
> Our very broadest aspirations for Australia must include security from military threat, individual freedom, and universal prosperity for her people. So unexceptional are these ends that most would regard them as trite – a mere call for motherhood. Yet so often they are prejudiced in the pursuit of less important ends such as electoral success, preservation of the status quo and vested interests of power or wealth, or ideology, or the quiet life.
>
> The achievement of each of these three ends is necessary to gain what I believe is meant by 'dignity' and 'self-fulfilment'. They are not the last word on some other important ends including justice, communal harmony, compassionate care of the needy, or spiritual ends, but without freedom, security or wealth it is difficult to envisage a society in which these can be the normal expectation. They are

[46] Kasper et al, *Australia at the Crossroads,* Harcourt, Brace Jovanovich Group, 1980, p189

[47] ibid, p221

> prerequisites of most worthwhile ends. They are also prerequisites of each other. The year 2000 without a large measure of all three would appeal to very few of us.
>
> If security, freedom and wealth are our ultimate ends, by keeping them well in mind we can identify a next generation of goals that have immediate implication for Government policy. The identification of these second-generation goals is the object of this paper.
>
> I have chosen eleven major subjects that I believe would respond to better Government policy, but the catalogue is not meant to be exhaustive: in fact there are some obvious omissions such as the need to control inflation better, left out because I think the present policies are sufficient if only the Government can keep with them. Health, although inherently complex, has been tackled by the Government. The over-regulation of commerce, management of the police force, and the definition and control of vice fall largely outside the responsibility of the Federal Government – that is not to say that all of them would not be susceptible to the application of appropriate liberal policy.
>
> The financial system, industry protection, transport, communications, industrial relations and employment are mainly economic issues while taxation, welfare, education, Commonwealth/State relations, the process of governing and international relations have increasing political content, but at no stage is the political divorced from the economic. At each stage, the tendency for short-run political considerations to override economic ends, national security and personal freedom is seen as the nub of a problem.

It reads a bit pretentiously for my liking now and, noting how much 'self-fulfilment' has since equated with selfishness, if I mentioned it today, I would probably be sarcastic. Nevertheless, this introduction does exemplify several aspects of dryness: In its attempt to list community ends and fit the policies within them it is, I believe a fair example of the quest for consistency that characterises Dries. By starting the argument from premises shared with Wets it is an attempt to persuade and not to browbeat. And it directs attention to the central concern: the tendency for privilege to prejudice communal goals.

The fates of nine of these policy prescriptions plus inflation, health (which the Fraser Government did not address adequately), the over-regulation of commerce, privatisation and fiscal rectitude – fourteen in all – are followed through the succeeding chapters of this book.

Jim Carlton's Blue Book

In prosecuting the good fight Jim Carlton, then Member for MacKellar in NSW, brought a number of his own speeches over several years between one pair of covers. In 1980 he told the Melbourne Business School Association:

> …I would like to insert a determined political slant by insisting that a Government should be aiming constantly to encourage self-regulating systems outside the immediate control of the Government, rather than seeking to expand the role of Government, and therefore of bureaucratic decision making into more and more fields of human endeavour. In other words, the evolving forward structures or frameworks should at least aim for a diminishing Government stream.

> The best self-regulating device yet known to man is the market. It has the capacity to bring about change in the least disruptive way…. Let me quote Arthur Seldon of the London Institute of Economic Affairs. … In a functioning market with monopoly bottlenecks minimised and access to supply widened by topping up low incomes, decisions in adapting supply to demand are decentralised to individual undertakings or establishments – factories and shops, mines and docks, schools and hospitals. Change is organic, gradual, continuous, by degree. It affects relatively small numbers. Disturbance, dislocation, disruption are minimised. The confrontations in the market are small, and solved by higgling and haggling over price, the peacemaker.

As we all so often did, Jim drew on arguments put in concise form by the IEA.

In the same year he tackled the then popular Luddite myth that technology destroyed jobs:

> Improved technology will make some jobs redundant, but it will necessarily and always release resources for the creation of new jobs. There is no limit to the useful activity that mankind can undertake. If a machine is used to do what was once done manually, the money previously paid in wages is available to create employment ….

The CEDA speeches

During 1982 Grant Chapman (Liberal, South Australia), Murray Sainsbury and Jim Carlton (Liberal NSW), Steve Lusher (National, NSW), Peter Shack, Ross McLean and I (Liberal WA) coordinated our speeches in parliament and various forums to present a comprehensive case for economic reform. We then circulated them as packages and these resulted in invitations to address CEDA meetings.

One such effort involved addressing groups in Sydney and Melbourne. I introduced the ‘circus’ with evidence that Australian per capita economic growth was indeed dismal – Annually over 7 years: Japan 3.26%, South Korea 8.73%, Hong Kong 7.70%, Singapore 6.44%, Philippines 3.85%, Indonesia 4.78%, Australia 1.37%, and OECD average 2.25%. What is more, it was getting worse: during the 1960s it had been 3.19% but during the 1970s only 1.13%.

Murray Sainsbury then described how we had created the problem, Peter Shack the political environment that perpetuated economic mistakes and Grant Chapman what needed to be done. Shack’s address was a good account of how Dries viewed political failure and concluded with a list of principal items from the dry agenda, first saying why there was an agenda:

> Whenever the Liberal Party in Government pursues or effects policies which are in denial of Liberal philosophy, freedom is limited, choice is restricted and competition reduced.
>
> Distortions are created, a misallocation of resources is promoted and economic mistakes are made and perpetuated….
>
> If the philosophy is clear, then why in policy is it so often denied?…

> An inflated appreciation of the ability of Government, as such, to solve problems not only results in loss of personal and economic freedom but creates and perpetuates social and economic mistakes….
>
> The pandering to vested interest groups in response to political pressure … strikes at the very heart of democracy …. The giving by Government of new benefits to some inevitably means the taking away from others.

He called for reduced protection; a freer labour market, particularly for an end to 'comparative wage justice'; deregulation of rail, sea and air transport; budget balance; needs-based welfare payments and tax reform involving a broadening of the tax base, better recognition of single income families and an end to the double taxation of dividends.

Stone's Shann Memorial Lecture

Four years after the publication of Crossroads, the retiring Secretary to the Treasury, John Stone, delivered the Shann Memorial Lecture.[48] He too saw over regulation of commerce, industry protection and an inflexible centrally-controlled labour market as the principle reasons for Australia's relatively poor economic performance. Drawing upon Shann's prescient warnings before the Great Depression he warned of the dangers facing an economy that was too like that of the late 1920s. Some said that Stone, never one to pull punches, had delivered a paper in terms calculated more to offend than to instruct but he had insured that it was widely reported and his authority and unequivocating clarity made the address the most effective warning of the time.

It is time to turn to the individual areas of Government policy.

Industry protection from international competition

Australian barriers to international trade were extremely high and much of Australian manufacturing was not internationally competitive. The barriers took the forms of simple tariffs, quotas backed by prohibitive tariffs and, more rarely, subsidies. If there is one matter on which economists are agreed it is that trade barriers inhibit economic growth. Further, with encouragement from Dick Boyer and Bill Carmichael at the Industries Assistance Commission (IAC), Austin Holmes at the Reserve Bank, Professor Wolfgang Kasper of the University of NSW (Australian Defence Force Academy), and David Trebeck of the National Farmers' Federation, the Parliamentary Dries believed that if the product markets were deregulated competition would sooner or later lead to deregulation of labour and other factor markets. (Their 'education' in this and much else was typical of a process by which the central ideas were spread not coincidently but by processes that both teachers and learners recognised as features of a campaign.)

The Dries argued that Government-imposed trade barriers were not only inefficient but also unfair. They made much of the fact that inhibiting trade penalised not only the mining and agricultural sectors but also those manufacturers with the potential to export.

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[48] J.O. Stone, *A decade of Shann memorial lectures*, API, p 129 ff

They noted the harm done to international relations, particularly with nations to our near north, and hence to Australian security, by efforts to protect our clothing, textile, footwear and motor industries, Qantas and the Australian National Line.

In my Blue Book I wrote:

> There is nothing more important for Australia's long-term economic health than the removal of the tariffs and quotas from very high cost industry. The arguments are well understood and often enough articulated by those responsible: all that is needed is sufficient political courage to act in the national interest rather than the narrow interest and the long-term interest rather than the short.[49]

If one did not believe at least as much, one was not a dry.

Australia at the Crossroads had emphasised the benefits of international trade and capital flows, lampooning at length then-existing attitudes to the inflow of foreign goods, capital and ideas.[50] Without departing from totally mainstream economic theory the authors produced an easily-read account of the inevitable consequences of protection. Specifically they called for elimination of border protection over five years.

> In the Libertarian scenario the Government has bindingly pre-announced a gradual reduction of all tariffs and other trade restrictions over five years, except for genuine fiscal tariffs. To ensure that this pre-announcement has public credibility and to fend off lobbying for retention of individual tariffs and quotas, the Government makes these tariff cuts binding under the GATT (General Agreement on Tariffs and Trade) agreement and adopts the simple clear-cut formula that all tariffs are to be cut by the same percentage of the tariff level prevailing at the starting date of the exercise.[51]

Tariffs are an indirect tax and, like sales taxes, raise the prices of the items taxed. In 1982 Jim Carlton told the Metal Trades Industries Association that:

> [W]e use the euphemism 'assistance' to describe the Government's conscription of one group in the community to pay for the supposed needs of another. Governments do not really 'assist', they merely redistribute … industry assistance tends to involve taking resources from relatively more productive industries. Whenever I get the question: 'What will we do if reductions in protection force us out of business?', I am inclined to say: 'If you can't see the answer to that question then I fear for your shareholders, and also for the taxpayers and buyers of your products who will be forced to subsidise your failure to shift your investment into more productive areas'.[52]

Many of the assembled manufacturers would not have enjoyed the homily.

The Financial System

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[49] *The Year 2000: A Radical Liberal Alternative*, My so-called 'Blue Book'.
[50] Kasper et al, *Australia at the Crossroads,* Harcourt, Brace Jovanovich Group, 1980, p185 ff
[51] ibid, p218
[52] Jim Carlton's Blue Book, p 57

Although there were reservations from Treasury[53] most Dries accepted the overwhelming majority of the findings of the Campbell Inquiry set up by John Howard when he was Treasurer in the Fraser Government. My Blue Book had this to say:

> Like so much more of Australian commerce, our financial system is governed by mercantilist regulation which for the most part prevents it from working efficiently. It is often said that Australians are averse to investment in risk taking ventures to the point that it is inevitable that that our new and potentially very profitable resources-based enterprises must be owned by foreigners. It is admittedly unlikely that, even with the most perfectly operating capital markets, we could exploit fully the veritable Aladdin's cave over which it is our good fortune to have political control with domestic capital alone. It is, however, an indictment of something that a nation as wealthy as Australia should invest so little in its future.
>
> The Campbell Inquiry, has identified problems of the Australian financial system that are amenable to Government action and which suggest that the 'something' is to be found in the system rather than in the psyche of the Australian people. In most cases, all that is required of the Government to improve the system is that it ceases the imposition of rules that are discriminatory or inefficient.
>
> For instance, interest rate controls reduce the earnings of small lenders who mainly lend to savings banks and building societies and force small borrowers away from cheaper bank and building society loans into hire purchase. The Campbell Committee observed that 'interest rate controls are an inefficient and ineffective means of assisting low-income potential homebuyers. They have regressive distributional consequences, harming many they are intended to benefit and benefiting many who do not require assistance. In short, they can be said to have been counter-productive in achieving their welfare objectives while hurting the community at large by impairing the efficiency of the financial system.
>
> The Report notes that in regulated capital markets the regulations discriminate against lenders, are regressive and, in many cases are inefficient both technically and in the allocation of resources. Australian banks have been sheltered from competition so that they have not needed to adopt new technology. On the other hand, they have been hamstrung in meeting reasonable customer requirements by interest rate regulation and other restrictions.
>
> The Australian Industries Development Corporation is not yet commercially viable. Government insurance offices enjoy unfair advantages and distort the market. Rules requiring some intermediaries to invest with Government and semi-Government authorities have resulted in a hidden form of taxation by reducing the cost of Government borrowings at the expense of depositors and of potential customers of banks who are, as a result, unable to borrow. The Committee saw variable reserve requirements as an inefficient means of managing money supply and prefer a floating exchange rate.

[53] Minutes of a briefing by Dick Rye to the Government parties' Treasury Committee, 7 December, 1981

Australia at the Crossroads ridiculed restrictions on the entry of foreign banks and control of capital flows and the exchange rate[54] and in 1984 Kasper expanded on the theme for the CIS.[55]

Inflation

Dries accepted that inflation responds to money supply and believed money supply should be managed by a Reserve Bank that was independent of political interference. In the late seventies and early eighties, that is before the Thatcher Government and the Bank of England had so much trouble interpreting Britain's monetary aggregates, they had more confidence in the various measures of money, M0, M1, M2, M3 etc than they have today. Nevertheless, their preference for leaving monetary management to professional central bankers has not changed. Further, they believed that budget imbalance can make the central bankers' job more difficult. The Crossroads authors stated that for a collective bargaining 'wage system to function without long-term inflation it is absolutely necessary that the Government be committed not to adjust the growth of money supply to validate whatever rate of growth of money wages eventuates in the economy.'[56] At about this time Thatcher incurred the considerable wrath of some members of the Confederation of British Industry by telling them that they could go broke in any way they chose; she was not going to validate their wage settlements with inflation. Settlements they made in anticipation of rising prices would, therefore, in all probability prove too difficult to pay.

Fiscal policy

Dries asked three things of fiscal policy: First, that wasteful expenditure is avoided. Of course there was some disagreement as to what was wasteful – for instance Jim Carlton and I differed on arts funding. Nevertheless, there was agreement that public-sector waste was far from trivial and that expenditures and therefore taxes were too high. Most opposed expenditure upon 'middle-class welfare', which is the mere churning of taxes and handouts. All opposed subsidies to industry, and uncosted investments in grandiose capital works. More generally expressed, they believed that under the present circumstances, one dollar less in Government coffers and one more in private pockets would enhance welfare.

Second, they agreed that expenditure and revenue should balance over the business cycle or, while there is debt to liquidate, be in surplus. In times of peace and prosperity public debt should be reduced to zero, giving Governments the capacity to respond to a crisis should something such as the two world wars or the great depression again occur and saving taxpayers the interest payments.

Third, they asked that the arithmetic in budgets and election manifestos be sound. The 'rubbery figures' budget of 1977 had reduced the automatic respect that later parliamentary Dries might otherwise have afforded their leaders and party solidarity.

Privatisation

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[54] Kasper et al, *Australia at the Crossroads*, Harcourt, Brace Jovanovich Group, 1980, p188

[55] Wolfgang Kasper, *Capital Xenophobia*, CIS 1984

[56] Kasper et al, *Australia at the Crossroads,* Harcourt, Brace Jovanovich Group, 1980, p240

In the late 1970s, the parliamentary Dries had not fully appreciated that private ownership was necessary for the efficient formation and allocation of capital. Neither had they at first adequately appreciated the tendency for public ownership to overload the political system with the demands of rent-seekers. They suspected that Cabinets would use the proceeds of privatisation not to retire debt but to finance extravagant current expenditures. They were, therefore, ambivalent about privatisation and concentrated upon competition in product markets, for instance, advocating domestic airline deregulation but not then the privatisation of Trans Australian Airlines.

Nevertheless, from the beginning they had appreciated that when privatising, Governments should maximise the consumers' gains rather than the sale price. Government monopolies should therefore, wherever possible, be broken up and sold only into competitive markets even though the immediate benefit to the budget was less.

I was assisted to a conviction that private ownership was the only way to ensure competition, as in much else, by Institute of Economic Affairs publications. George and Priscilla Polanyi had shown that the financial performance of Britain's nationalised industries was consistently way below that of the British private sector. From 1955 to 1974 the net annual return on capital of nationalised industries had been in the range 2% to 6% compared with 11% to 19% with privately owned companies. The six industries nationalised since the war (coal, electricity, gas, railways and the two international airlines BEA and BOAC) had accumulated losses of £1,169 million and had received subsidies of nearly £6,500 million. The price rises of the goods and services produced by the nationalised industries had been about the same as for all goods and services. Over the twenty years to 1968 the nationalised industries had reduced employment by 33% while the private sector had increased employment by 16%. From 1962 to 1972 nationalised industries had paid £67 million in taxes, while privately-owned companies had paid £13,729 million.[57]

Most Dries became staunch privatisers. Those in Parliament became convinced that political interference with state-owned enterprises was too hard to avoid. We would have to accept that Governments would be presented with large dollops of money that they would be tempted to squander. Just before the defeat of the last Fraser Government, Jim Carlton, then Minister for Health, spelt out the difficulties. It is unlikely that Malcolm Fraser thanked him for that speech!

He identified the principal shortcomings of the state enterprise model. From the point of view of the management of the enterprise these are:

- Capital structure is decided politically within the context of constraints unrelated to the needs of the enterprise.
- Product range is also decided politically.
- Industrial relations policy is tied in with the policy for the whole public sector.
- The ability of the management to hire and fire key personnel is severely constrained and the workforce captures the state-owned enterprise.
- Superannuation costs are often governed by rules for the policy sections of the public service.

[57] George and Priscilla Polanyi, *Background Memorandum, Comparative Returns from Investment in Nationalised Industries,* IEA 1968.

- Inability to negotiate terms of business with other parts of the public sector.
- Political uncertainty.

He also saw difficulties arising from and for the Minister. Ministers may have several enterprises for which they are responsible and the board-equivalents never have the same feeling of responsibility for shareholders' funds because they know that if the worst comes to the worst there will always be more taxpayer funds. Only the minister bears the ultimate responsibility and he does so without advice that is independent of the enterprise concerned. Departmental advice is normally unattuned to the subtleties of the marketplace.[58]

Jim might have added to his catalogue the fact the ministers are not normally chosen for commercial acumen.

Transport

Most Australian transport was concentrated in the public sector, highly regulated and/or protected from competition. Again drawing on my Blue Book:

> Non-bulk shipping – the liner trade – is controlled by tight cartels, euphemistically called conferences, that negotiate freights with Australian shippers who are, in turn, organised into the shippers' council. This anti-competitive arrangement is specifically excluded from the ambit of the *Trade Practices Act*. Liner freights have risen rapidly at the same time as those freights that have been subject to competition have fallen.
>
> Coastal shipping is tightly regulated by the Navigation Act, part VI which requires every ship engaged in coastal trade to be licensed by the Federal Government. License is granted only to those vessels that meet Australian manning, pay and even accommodation levels. This effectively prevents foreign vessels from entering our coastal trade. Australian coastal shipping is very expensive indeed: for instance, it costs about half as much to send iron ore from Port Headland to Japan as from Port Headland to Port Kembla in the same sized vessel or, in the opposite direction, it costs almost one and a half times as much to send steel from Port Kembla to Perth as it would to ship the same steel from Japan to Perth.
>
> So costly is coastal shipping that it has been deemed necessary to pay a subsidy of $33 million per year to reduce sea freights to and from Tasmania to levels comparable with mainland road and rail freights of similar distance.
>
> The wharves are governed by powerful unions and by stevedoring companies, which have a monopoly over the supply of labour on the waterfront. Over-manning and lost time are serious problems. There appears to be a cosy and effective, if chaste, agreement between the shipping conferences, the stevedores and the unions to meet each other's demands and pass on the costs. Reports of scandal, even loss of life, are rife. In short, the waterfront exhibits all the worst features of the concentration of power in a few hands in a regulated environment.
>
> The difficulty of introducing Australian shipping and stevedoring to competition should not be underestimated, yet the burden the industry places upon an island

[58] Jim Carlton's Blue Book, p 135

> nation dependent on international trade ought not to be ignored. The Federal Government should abandon the conference arrangement in short order, gradually work toward the repeal of the Navigation Act and gradually introduce competition to the wharves. Consistent with this approach, any attempt to regulate bulk shipping or extend the worst of stevedoring practice should be resisted.[59]

My recommendation to introduce competition gradually to the wharves proved even more difficult than I imagined, but twenty years on it seems remarkable that at the beginning of the 1980s we felt obliged to resist further regulation of bulk cargoes.

Other preferred transport policies included:
- Notice of termination of the Two Airline Agreement given as soon as possible to become effective in 1989 and the States encouraged to deregulate their air services.
- Unrestricted competition on international air routes, and
- Full cost recovery by Australian National Railways by 1987/88 with lines that showed no signs of becoming profitable closed.

Communications

The monopolies, Telecom and Australia Post, and the ABC, which enjoyed privileged positions, dominated communications. I argued:

> The Government should not restrict the development of alternative networks considered to be commercial by those who are prepared to risk their own capital in the development of them using whatever technology is appropriate – satellite, microwave or cables.
>
> Australia Post and Telecom monopolies should be broken up…. [L]egal barriers to the full use of electronic facsimile machines should be removed and alternative carriers should be permitted to carry messages on a regular or irregular basis. All add-on equipment for Telecom's basic service – handsets, PABX equipment, facsimile machines, telex etc – should be open to competition.
>
> Satellite ground stations should be privately owned and as numerous as the market dictates. The number of available television and radio ground stations should not be limited by law below the number of available frequencies. As many as wish to own cables or provide services through them should be permitted to do so.
>
> Throughout history, the great propaganda machines which have supported despotic behaviour have been run by Governments….The Government should adopt those provisions of the Dix Report that will make the ABC more independent of Government finance and control; the Government Information Unit is unnecessary and should be abolished.[60]

Taxation

Decisions to do less work are the form of tax avoidance that most reduces the size of the economy. The progressive income tax, falling most heavily on those who choose to produce most was not an obviously smart way to raise revenue and the relative ease

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[59] *The Year 2000: A Radical Liberal Alternative*. My so-called 'Blue Book'.
[60] My so-called 'Blue Book', pp 7 & 8

with which the relatively wealthy avoided it despite mountains of ever-changing law rendered it unfair.

The Whitlam Government had commissioned the Asprey Report. With it to guide me I was able to advocate changes in tax law that have since largely come to fruition: the shift from excessive emphasis on direct taxation to taxing goods and services, the elimination of the double taxation of dividend income, the removal of special deductions for favoured investments, and an end to the tax-free status of income derived from gold. I also called for more equitable treatment of single income families, and taxation of the benefits of home ownership. The last was without doubt 'courageous' in the Sir Humphry sense and, although the economic case for not favouring housing over other investment and the justice of taxing imputed rents was conceded to me privately, no one was ready for the political consequences. Ross McLean, quipped in the party room that I had all the survival instincts of a Kamikaze pilot. I poured cold water on the popular notions that substantially more revenues could be raised either by eliminating tax evasion, which was too difficult to eliminate, or the then current idea of a resource rent tax.[61]

The authors of *Australia at the Crossroads*, on the other hand, favoured a resource rent tax, accepting its inevitable anomalies and the possibility of its being applied at rates that inhibited exploration (even more than currently) as a, nevertheless, superior alternative to the plethora of taxes, royalties and penal rail freights then in existence.[62] In the area of direct taxation, they were insistent that the tax bias towards profit retention in established firms must be removed by abolishing the double taxation of dividend income[63] but did not mention the bias toward investment in housing.

Dries were never to reach a clear majority view on the wisdom of resource rental taxation. It was favoured by some Labor Party Dries. The objections to it were later spelt out in a Centre for Independent Studies Publication written by Professor Ray Ball and John Bowers.[64] Ball and Bowers contended that there were no rents to tax as the big profits made from successful mines and wells financed the millions spent sinking exploratory holes etc. A resource rental tax thus became a tax on exploration.

Dries remain divided on the wisdom of introducing a broad-based consumption tax. They generally accept that consumption, particularly if there are no or minimal exceptions, is a more efficient tax base than income which is too difficult to define. The huge sums spent on tax-accounting are, for the main part, a dead-weight cost to the economy. However, its easy yield worries some. Consumption taxation allows Governments to get their hands on huge revenues too easily without the public being aware that they are being taxed. The Dries who tend to have the strongest objection to income taxation, and who therefore favour broad-based consumption taxes, tend to be those with business experience, who like me who have had most opportunity to take

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[61] ibid, pp 10 & 11
[62] Kasper et al, *Australia at the Crossroads* Harcourt, Brace Jovanovich Group, 1980, p222
[63] ibid, p217, 219
[64] Ray Ball and John Bowers, *The Resource Rent Tax: A penalty on risk-taking*, CIS, 1984

advantage of the inability to define income. Salary earners seldom appreciate how easy it is for others to avoid income tax by devoting money and effort to doing so.

Australian Dries similarly expressed no consistent view on the taxation of inheritance. The Australian probate/estate duty/gift tax system had been too easily avoided and too uneven, taxing some families punitively and avoiding others. It was also too 'lumpy' for a tax triggered by an event that could not be accurately predicted. An accessions tax, taxing aggregating lifetime inheritances allowing an extended time to pay, is, however, a reasonable source of public revenue. Neither Thatcher nor Reagan sought to abolish death duties.[65]

The Over-regulation of Commerce

The Dries were careful to acknowledge market failure but contended that in many important situations Government induced market failures were the most common and Government failure was the bigger problem. Obviously, command would not be necessary if there were not losers and Dries contrasted win-win voluntary transactions favourably with win-lose command transactions.

Although we were sometimes caricatured as libertarians demanding a society without rules, we had always understood that markets are possible only within a framework of rules. Dries were in time to devote much attention to that framework but at the beginning of the 1980s most tended to take their presence as axiomatic.

The scenarios that 'Crossroads' employed to make its argument contrasted the relative absence of Government control of outcomes with a regulated environment. The latter was characterised by: widening productivity gaps between protected and regulated domestic producers and large-scale producers overseas; investment inhibited on the one hand by doubts about the continuation of protective regulation and on the other by high costs imposed by the protected sector; repeated disputes over income distribution between labour, capital and Government; and unstable industrial relations.[66] Kasper, Blandy, Freebairn, Hocking and O'Neil called for substantial deregulation of the production and supply of goods and services with the exception of Trade Practices legislation:

> The Trade Practices legislation is sharpened to encourage price competition and broadened to include markets for services. Markets for minerals, foodstuffs, professional services, transport and finance are deregulated. Freedom of entry for newcomers is enforced. Governments withdraw their protection of cartels and self-regulating corporate bodies. The Byzantine regulations restricting interstate transport, protecting national shipping and airlines' interests, and giving medical, legal and similar associations monopoly powers are withdrawn. The Prices Justification Tribunal is abolished as unnecessary in the competitive business environment.[67]

Jim Carlton, gently as was his way, tipped a bucket on all those many people who believed that it was safe for Governments to plan and manage a country like a

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[65] Peter Walsh, *Confessions of a Failed Finance Minister*, Random House, p 37.
[66] Kasper et al*, Australia at the Crossroads*, Harcourt, Brace Jovanovich Group, 1980, p190
[67] ibid, p219

corporation. That would, he said, be 'very dangerous'.[68] It is no use saying 'no deal' to Governments: they don't, indeed should not, listen.

I had in an *ad hoc* way opposed wool reserve prices, the acquisition of wheat by the Wheat Board, the bulk handling monopolies and the acquisition of lamb by the Western Australian Lamb Board from before my time in parliament. Once elected, I used an MP's opportunities to continue my opposition, but to little avail. On the backbench rural committee I had little support; yet it was strange that farmers, who so vehemently opposed mergers and takeovers among wool brokers, demanded choice of farm machinery and resisted mightily attempts to monopolise their fertiliser supply, should insist that the Government monopolise wheat and sugar handling and marketing. Most Dries, unless constrained by public service rules, had similarly publicly opposed inefficient regulation within their own areas of interest and expertise.

Private property and sovereign risk

Dries had few doubts that private property was a necessary condition for market exchange and private saving and that it stood between the state and individuals' liberties. We were not, however, in the late 1970s as familiar as we became with the tendency of Government to attenuate property by over-riding individual rights without compensating owners for their losses. Except in left-wing anti-property circles there was then less discussion of the role of property than there was in later years.

The relatively complex example of the Commonwealth and State Government's attempts to regulate fish stocks off the South East corner of the nation illustrates several of the relevant principles and dilemmas.[69]

As it is too difficult to establish individual ownership of ocean fish stocks, nobody has an incentive to preserve them and in the absence of imposed rationing over-fishing is inevitable. Regulation of this industry was thus not of a type with the anti-competitive favouritism that confers economic rents on undeserving businesses, keeps bureaucrats employed and causes voters with relevant vested interests to return undeserving politicians. In this case, however, the Governments regulated badly.

They restricted the size and horsepower of fishing boats but the regulation did not tend towards efficiency and was not effective. It made fishing needlessly costly and, when better gear allowed small boats to catch more fish, it didn't work. The Federal Minister, nevertheless, told the fishermen that the method would be retained and they invested accordingly. Then, in spite of the assurance, Government changed from regulating inputs to restricting individuals' catches. It cancelled the previous entitlements to fish for the regulated species and substituted instead a system of individual transferable catch quotas. The new rules should have been more efficient and they were more effective. Nevertheless, a lot of anger was generated and the Government lost two major court cases. Despite eight inquiries, five years on, the fishermen still did not enjoy stable rules.

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[68] Jim Carlton's 'Blue Book' p 27

[69] David Trebeck et al, Report to the Federal Government of the South East Fishery Adjustment Working Group*,* 1996, Attachment C

The administrators cannot have understood the nature and role of private property and their, no doubt well-intentioned, efforts failed. Without bothering to defend the contention, the Commonwealth Government claimed that the fish in question were a community resource. They were not. It is true that certain residual rights rested with the community – those affecting recreational fishing and the unregulated species for instance – but other rights had been alienated. Before the introduction of output quotas, the relevant private property right was to catch as many fish as each licensee could with a boat of the specified characteristics. This right was as much private property as the right to cultivate a farm or occupy a residential house. The Crown is entitled to acquire private property but only, says the Constitution, 'on just terms'. In the case of the fishermen, the compensation, in the form of the output license, was in some cases unjustly low and that was the root of the subsequent trouble.

The situation of the fishermen has very many parallels. Property is a bundle of rights. When owners' rights are taken from the bundle, property is reduced in value. For various reasons but particularly in the name of land-use planning and environmental protection, the Crown takes rights to graze, cultivate, build upon, export, import, sell, buy, lease and very much more without conceding the need to compensate the owners.

The converse also occurs. Governments give away property to private citizens without pricing them properly, as the broadcasting spectrum has been alienated to private ownership by successive Governments.

Although Dries often recognised the individual injustices and sometimes wrangled with Governments in defence of private property, the nature of property rights did not feature in any general or theoretical way in the early1980s debates. It is perhaps a consequence of Dries' early failure to take-up the issue that little progress has been made at the level of public policy despite increasingly sophisticated public discussion. Property rights and the risk of their uncompensated taking by the crown (sovereign risk) are today major dry issues. They contend that when private property rights are taken by the Crown then it should be at public cost rather than that of the savings of unlucky individuals.

Welfare

During the ten years to 1979, pensions, benefits and allowances had increased from 2.8% to 6.4% of GDP and from 11.7% to 22% of Commonwealth outlays. These increases had been brought about mainly by the creation of new benefits and by easier access to the income security system so that over the decade the proportion of the population in receipt of income security benefits had nearly doubled.

Nobody argued that the adverse economic effects of welfare were sufficient reason to abandon Government welfare but, with difficulty, Dries said that they needed to be taken into account when assessing alternative strategies. Access to welfare does induce some work shyness; taxation does encourage people to work less hard and to devote resources to tax avoidance; and Government guarantees of income during old age, unemployment and sickness does discourage saving. To ignore these tendencies was a recipe for bad policy. To admit them was to be accused of possessing a hard heart or worse.

Although aware of the disincentive effects of means tests, Dries favoured a welfare system that was to a much greater extent based on need than was then the practice. I wrote:

> That the financially stronger members of society ought to ensure that the financially weaker do not needlessly fall below reasonable standards of material wellbeing is a value judgement shared by most and is not questioned here. Aproblem has arisen, however, because, increasingly, payments are made to those who are not in need of them while, arguably, the needy still get inadequate succour.[70]

Specifically, I called for the family allowance to be means-tested – not a proposal that found much political support.

The parliamentary Dries (and others) were concerned by the mismatch of income taxes levied on individuals and welfare payments made to families or households and by poverty traps, that is, the tendency for withdrawal of benefit and taxation together to destroy the rewards of employment. They worked especially with Ian Wilson, the member for Sturt in South Australian who was sometimes numbered among the Wets, against the sometimes-bitter opposition of feminists, to design a less anomalous tax/welfare system. My Blue Book called for a progressive shift toward a system akin to negative income tax with two differences. The current work test discriminating against those unwilling to accept gainful employment should be retained and income should be imputed to assets enjoyed by the taxpayer/beneficiary. A common entity – individual or family – should be adopted for tax and income security purposes.[71] *Crossroads* also proposed a guaranteed minimum income to be achieved by way of a less qualified negative income tax system than mine.[72]

The proposals may have been politically naïve but, if adopted, they could have benefited only the needy at the expense of the greedy.

Post-war increases in 'welfare' had coincided with increases in some of the problems we once thought welfare would overcome. Among welfare recipients there were obviously many of both honourable battlers and dishonourable loafers but these could not be neatly categorised. Moral judgements were inevitable. Most 'welfare' was delivered by families that, for all their ups and downs, mostly delivered it of higher quality than could any outsiders and particularly Governments. Some, maybe most, Dries suspected that Governments were creating unmet needs by weakening that pre-eminently successful social institution. If in fact they were, then that was an act of collective madness of the type that ultimately destroys societies. Most Dries were, therefore, concerned about increasing family breakdown. They believed that welfare policy should strengthen families but, because families did sometimes fail, the state should provide a safety net while leaving the provision of higher levels of welfare to markets and to families. Wherever it was possible, state welfare delivery should be via

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[70] My so-called 'Blue Book', p 12
[71] ibid, p 13
[72] Kasper et al, *Australia at the Crossroads*, Harcourt, Brace Jovanovich Group, 1980, p219

agents of the state competing one with another much as nursing homes did already.[73] It is, of course, one thing to agree upon these general principles and an altogether more difficult task to agree upon the crucial element, the level of the safety net.

In the early 1980s Aboriginal problems did not loom large in dry discussion. It was not that we did not want to know about them. I recall a conversation with Peter Walsh from about those times in which we each regretted that we had nothing useful to contribute to the debate. Since the Mabo judgement, however, many Dries have come to a position on some aspects of it which is at variance with what aboriginal activists propound.

While Dries tended to share widespread concerns about the often poor living conditions, low life expectancy, high unemployment, high drug abuse and frequent clashes with the law among aborigines and part aborigines, they were sceptical of top-down welfare that destroys self-reliant individuals. Their concern that handouts encouraged dependency was, however, a very general one, in the early 1980s raised most often by them in the context of industry policy. By the 1990s, however, they were discussing welfare dependency in terms of the development of an underclass culturally alienated from mainstream values and aspirations. The unhappy circumstances of Aborigines were a subset of a more general problem.

Dries are inspired by individualism and optimistic that that self-reliant individuals can better their condition if left free. However, they were not blind to institutional and cultural differences or to the obvious fact that not all cultures and institutions serve those who adhere to them equally well in our open, technically advanced, Western community. While tribal Aborigines had institutions and knowledge that were well fitted to the survival of small nomadic bands, these might not serve as well in today's Australia. Dries, therefore, favoured opportunities for adaptation and learning and questioned policies encouraging separate development.

In the 1970s the land-ownership issue came to prominence in the Northern Territory. Initially I at least did not think clearly about it, but Dries quickly came to prefer land ownership to be devolved to self-responsible groups with those responsible individually identifiable, rather than to distant land councils. They also opposed making land inalienable, since that deprives Aborigines of full use of their property.

Collectivists have, in this area, successfully claimed the moral high ground silencing alternative, pragmatic, politically incorrect, views. To the extent that Dries opted out of the debate, they allowed a situation to develop where the silent majority felt that official policy and rhetoric were wrong and a backlash to develop. Had they had the foresight to stress liberal principles for Aboriginal policy earlier, they might have had a beneficial influence on subsequent events.

Health care

Even such dedicated reformers as Margaret Thatcher and Roger Douglas found health-care reform too difficult. No area of public policy better illustrates the types of dilemmas that Dries – who were far from being ideological zealots – could not avoid.

[73] The executive summary of a speech I delivered to a CEDA meeting in October 1992.

Bureaucrats and politicians are prone to defend socialised medicine by noting that Britain spends a lesser proportion of GDP on health care than does the United States. It is not unreasonable, however, that as living standards rise the average citizen should wish to spend more on avoiding pain and living longer, as he does on his wine, his house and his car. The objection to Australian health-care is not that we spend too much on it but that we aren't getting value.

Australian health insurance relied upon the community rating principle. This required insurers to offer everyone the same premiums for the same level of cover irrespective of the age or health of the individual or family that was insured. It caused people who had low health risks to cross-subsidise people who expect big health bills. To most people this seemed fair but it had the fatal disadvantage that it encouraged the young and the single to opt out of private insurance. Then the funds, left with ever-higher proportions of bad risks, had no option but to increase their premiums, which in turn drove more low-risk people away to the 'free' basic health-care, offered by Medicare irrespective of capacity to pay. In 1983 two thirds of the population had been covered by private health insurance: by the late 1990s this had fallen to one third, there were queues at public hospitals, vacant beds in private hospitals, a huge cost to the Federal budget and significant wealth transfers from poor to rich.

That part of health services that causes the funding problems is the provision of the private goods: hospital accommodation, surgery, advice and drugs. The public-goods such as quarantine services are not the main problem.

The health (sickness) industry is like others in that the production and allocation of health services is an economic process responding to competition, demand and price. It does, however, like most other production, have some economic and political features which, although far from unique, need to be taken into account. These include:

- The tendency, one that I share, to regard access to a certain minimum standard of health care as a right irrespective of the ability to pay for it.
- The presumption that a long life is an unmitigated good and that anyone who incurs major health costs is unlucky.
- Individuals' health-care costs are unpredictable, they can be large, and they are associated with loss of income. They are, in short, the sort of costs that prudent people would wish to insure against. The desired risk-pooling can be provided either by a private fund financed by voluntarily contributed premiums – HBF or Medicare Private for instance – or it can be financed by taxes. There can be no free lunches but some individuals can have their dining out paid for by others.

Two well-known problems that are associated with all insurance are inescapably associated with health insurance.

- The first of these is 'moral hazard'. People who are insured against health costs are more likely to adopt life-styles, such as football, that incur health costs and more likely to seek those treatments, such as hip replacements, that improve comfort. Moral hazard also affects suppliers. Like car body repairmen who when paid by insurance companies tend to undertake unnecessary work to

a higher standard and at greater cost than when paid by individuals, human body repairmen have attenuated incentives to adopt the cheapest effective repairs. The tendency is well documented in the case of the supply of drugs and I well remember the occasion when I asked my surgeon how soon he could get me out of hospital. For reply he asked me who was paying – that is, was I insured?

- The other insurers' bane, 'adverse selection', the practice of seeking more insurance when the risk is high, presents health insurance funds with a huge problem. The tendencies for the low-risk young not to insure privately and for people anticipating heart-bypass operations to take out insurance are extreme examples of adverse selection.

Two other problems that present in other parts of the economy also affect health care.

- The carefully-fostered belief that patients are necessarily in the hands of doctors (the white-coated priesthood who alone can read the auguries and communicate with the Fates) has its usual economic effect: namely the unhealthy influence of suppliers over demand. Some analysts go so far as to claim that this influence is so great that this industry is so exceptional and the problem so intractable that its costs can and should be reduced by reducing the supply of doctors.
-
- The health industry at all levels is highly unionised.

Medicare offers:

- Universal health cover so that no one is faced with crippling expenses.
- Taxpayer-funded medical and hospital insurance.
- Non-transparent cross-subsidies from the majority who have low health risks to the minority with high health risks.

There was no alternative health scheme upon which most Dries agreed. They divided upon the legitimacy of compulsory health insurance. The more dedicated civil libertarians believed that people should be permitted to opt out of health insurance. The more pragmatic noted that, since nobody expected or wanted those who could not pay to be denied treatment for serious conditions, some compulsion was unavoidable. Better they thought to compel everybody to subscribe to competing health insurance funds than to achieve the compulsion via the tax system.

Dries did agree, however, that by one means or another taxpayer-funded medical and hospital insurance should be available only to those who, because of low income or high health cost, actually needed it. This did not appeal to some of 'the left' who are more concerned about their own privileges than those of the under-privileged about whom they talk so much. This group of highly articulate middle-class was to demonstrate its political clout!

Dries further agreed that transfers from low health risk people to high health risk people should be transparent.

Most agreed that compulsory community rating should be abandoned, allowing insurers to charge premiums that are determined by the risk that each patient poses to

the insurer. Since that change alone would have left some people to pay premiums that they could not afford, they wished the Government to spend some of the money it already spent on subsidising everyone subsidising the premiums of those who have low incomes and face high premiums.

They wanted Medicare to charge for membership like any other health fund.

Most importantly, Dries wanted insurers, doctors and hospitals to face market incentives to increase quality and reduce prices. They did not believe that vigorous health policing could duplicate the necessary incentives. Funding based on DRGs (Diagnostically Related Groups), sometimes referred to as 'casemix', offered an, albeit imperfect, mechanism that could be employed even within the public hospital system.

So far as I am aware, Dries had not spelt out these general principles before the advent of the Hawke Government in 1983 but they can be found in publications by the Australian Institute for Public Policy and the Centre for Independent Studies not long after.

Education

The authors of *Australia at the Crossroads* advocated education vouchers to provide parents with choice and put pressure on the institutions to provide quality while ensuring that access to quality schooling was available to every child.[74]

Other Dries agreed. I contended:

> The Australian education system suffers the lack of, or very unequal competition. It absorbs about 8% of the Federal budget and about 30% of the State budgets. During the past decade, education's share of GDP has risen from about 4% to about 6% of GDP although some people doubt that the greatly increased share of expenditures has led to improvement in educational performance.
>
> At the tertiary level the system is regressive providing free education for people who will enjoy high lifetime incomes at the expense of less wealthy taxpayers who did not attend a tertiary institution and whose children will not.
>
> Those parents who send their children to church or secular private schools pay twice for portion of their child's education: once through taxes, when they contribute to a school system they do not use, and again when they pay school fees. Many of those who choose a private education are relatively poor. Many poorer families are locked into a particular Government school irrespective of their perception of its quality, by inability to pay fees or by school catchment areas.
>
> Governments must achieve greater equity between those who get a tertiary education and those who do not and between the private and the public supply of education at all its levels….

[74] Kasper et al, *Australia at the Crossroads,* Harcourt, Brace Jovanovich Group, 1980, p90

> At the tertiary level of education, equity should be simply achieved by charging fees to those who receive the benefits … [and] a system of student loans should be instituted recoverable from earnings later in life….
>
> So long as the Commonwealth continues to fund schooling, grants should be made in such a way as to redress the imbalance in funding of Government and non-Government school children. In fact, to some extent this is happening already.[75]

At about that time in the context of assistance to the blind, I urged Education Minister Wal Fife to grant vouchers to all children with special educational difficulties taking the Isolated Children's Grant as his model.

Commonwealth/State relations

Our second Prime Minister and a father of the Constitution, Alfred Deakin, observed in 1902 that:

> …the rights of self-Government of the States have been fondly supposed to be safeguarded by the Constitution. It left them legally free, but financially bound to the chariot wheels of the central Government. Their need will be its opportunity.

He was prescient. When I recorded that there was too much quarrelling over authority and money, too much talk about where authority lies, too much confusing overlap, too much buck-passing, and too little direct electoral influence over expenditures[76] I too was right. However, the will to make Federalism work better was absent in the State Capitals.

The parliamentary Dries distrusted concentrated authority and, therefore, were federalists at heart. I therefore wrote:

> State Governments must be encouraged to use their taxing powers, if necessary by the Commonwealth's refusing to raise their taxes for them.[77]

In the United States the several States competed successfully for investment and population by offering drier, more efficient, administrations.[78] The Australian Dries who had hoped for similar behaviour here were, however, generally disappointed until the end of the 1980s when Victoria suffered a period of exceptionally bad Government followed by the Kennett revolution, causing Victoria to lose and then gain population. An earlier episode had, however, supported the theory. When Queensland abolished death duties and population moved north, within six years all other States had matched the competition. Dries had, however, not advocated the abolition of inheritance taxes, merely reform of Australia's version of them.

The most obvious competition between State Governments in Australia had until the Victorian episode taken the forms of costly tax breaks, subsidies and uneconomic infrastructure. Recently similar largesse has been offered to attract sporting

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[75] My so called 'Blue Book', p 14
[76] ibid, p 16
[77] ibid
[78] Philip Grossman, *Critical Issues No.11*, AIPP, 1990

extravaganzas. Investors followed rent-gathering opportunities rather than productive ones, and the nation is in consequence less wealthy that it could be.[79]

Our States avoid competition by collusive action. Abetted by the Commonwealth Government, they offer similar tax-and-service packages that are larger than would be the case if each State raised its own revenues. If a State were to cut its services it would be excoriated by its employees and perhaps also by the electorate, and it would not be praised by anybody since the Commonwealth collects the taxes.

Since only the wealthiest people and companies can move offshore, the Commonwealth, that raises the visible taxes, is a considerable natural monopolist. It can, therefore, raise more tax than individual competing States could raise in aggregate. It therefore suits State Governments to have the Commonwealth raise their revenue, even though the price they pay is the 'States' Rights' they claim to cherish. 'Fiscal equalisation' remains to inhibit competition between the States, a hangover from notions of equality, particularly collective equality masking personal differences of access to relatively narrowly-defined publicly-provided services.

Industrial relations and employment

My cautious approach to labour market reform in 1982 might bring a wry smile to the face of Peter Reith who was Minister for Industrial Relations in the 1990s. Then I wrote:

> The abuse of monopoly bargaining by trade unions seriously subtracts from the freedom and wealth of the Australian community. It is perhaps the most intractable of all our serious problems and, in spite of efforts to overcome it, it may well still be regarded as serious in year 2000. But as the power of kings, barons, the army, the guilds, and corporations has, in the past, been checked, so in time unions will come to accept limits to their powers that are more acceptable to the community.
>
> In the absence of an adequately free labour market, Australian society has evolved a system that is essentially one of countervailing monopoly, with an umpire that is the Arbitration Commission, Industrial Court or similar State body. That the system does not work well is evident in unemployment, skill shortages and strikes.
>
> Trade unions are cartels in the market for employees. Like other cartels, they hold out for higher returns for their members and, like all successful cartels, as they increase the cost of the cartelised good or service, they reduce the demand for it. As wages are forced up above the level at which everyone can get a job, unemployment results.…

[79] Wolfgang Kasper in *Building Prosperity,* CIS, 2000, p 97 addresses this tendency with the recommendation that a 'non-discrimination rule should stipulate that a State or local Government that grants material advantage to one firm in an industry is automatically obliged to extend that preferment to all other firms in that industry. This is the equivalent of the most-favoured nation clause, which was so successful on limiting political opportunism in international trade'.

> Most cartels are a conspiracy of the strong against the weak. In this, unions are no different – the weak in this case being the unemployed and those consumers who cannot pass on increased costs caused by increased wages.

That I made no mention of productivity and unit cost in this context is I believe more a measure of my own lack of sophistication in the area than that of Dries in general. The caution displayed in the immediately following paragraphs was, however, widely shared. This section of the Blue Book was well received and, I am convinced, earned respect for the rest of it. It was not written with that in mind, however. I continued in these terms:

> The various consequences of engaging unions at law are such that, for all practical purposes, they are, in most important matters, above the law. Unions deny workers freedom of association or non-association and deny workers freedom to dispose of their own labour or its production as each sees fit.
>
> While the major reason that the centralised award system does not work well is that the agreements reached between the parties are inappropriate, there is the additional problem that one of the parties – the union – does not feel bound by agreements reached and there is no way short of bloodshed that it can be forced to comply with the umpire's ruling. Those who believe that democratic Government can force the obedience of any substantial minority delude themselves.

The Hancock Report was later to make the same point in these words:

> [Unions are] centres of power:- they replace the powerlessness of individual workers with collective strength. It is a mistaken view of a pluralist society that every subject is equally dominated by the might of the state and its arms of enforcement.

Like the barons of old or the drug barons of Colombia today, unions are to a significant extent beyond the reach of civil authority. I continued cautiously – too cautiously for some of my friends:

> What won't yield to force might, however, yield to leadership. If the Australian public is brought to understand the nature of monopoly power, in particular its social and economic costs, then the weight of democratic public opinion would oppose the maintenance of any position of privilege. Then actions which are in restraint of trade or which damage others might suffer a legal restraint which enjoyed almost universal support even within the unions and, what may in the end be more important, those who abuse monopoly would suffer widespread opprobrium.
>
> But if any Government is to be strong enough to remove any of the privileges of trade unions, it must have the support of almost the entire public. No narrow majority will do.
>
> Trade Unionists are unlikely to forego any of their monopoly rights unless they are convinced that the same principle is applied to everybody. It is unrealistic to expect unionists – who can see companies granted monopolist's rights to air

> routes and wheat farmers granted a legislated cartel to control wheat sales – willingly to forego the privileges they have won, however damaging those privileges are to others.
>
> If a Government's main influence is but moral suasion, it cannot afford to be inconsistent. As with other battles affecting human freedom, the process of restoring equality under the law in the matter of employment will take time and patience and will not be achieved until the vast majority understand the nature of the problem and support the measures needed to correct it. Gradually, with good leadership through consistent argument and even-handed treatment, several things are possible. Employers will come to understand that Government does not have a primary role in industrial relations and, on pain of financial loss, they will probably perform better themselves; better awards will be written changing such extreme anomalies as penalty rates; minimum wage rates will become real minimums with individual employees claiming margins appropriate to their skills; and unions will more often comply with agreements negotiated or arbitrated.
>
> The first requirement of good industrial relations is an understanding of the nature of the problem. Government's contribution is to engender that understanding. Since it is not the Government but the unions that are primarily responsible for unemployment, political self interest should demand reasoned explanation of the problem to the electorate. Willingness on the part of Government gradually to revoke legislation granting monopoly rights to employer and employee alike is essential.

Clearly, at that time, I was far from advocating anything as liberal as New Zealand's *Employment Contracts Act*.

In *Australia at the Crossroads'* libertarian alternative:

> The Arbitration Commission continues to exist, but its role has modified perceptibly. [It] states its assumptions concerning the overall pattern of wage settlements which would best meet the balance of economic and social objectives, sets a wage guideline in view of these stated assumptions. It abandons the making of awards, however, restricting itself to a conciliation function between parties in dispute. Collective bargaining governs the development of the pay structure.[80]

At HR Nicholls Society meetings both Kasper *et al* and Hyde must have been regarded as decidedly wet. Dries were later to be criticised for not deregulating labour markets ahead of tariff reduction and domestic deregulation. At the time I believed that, such was the strength of the union movement, that the pressure of competition in the product markets would be needed to achieve fulsome deregulation of the most important of the factor markets, labour. In the HR Nicholls Society we breathed air that was more pure but it does not follow that Kasper *et al* and I were wrong.

The Environment

In the 1970s, as now, many environmental concerns were soundly based but others were not. Predictions of catastrophic global cooling still had some currency. The Club

[80] Kasper et al, *Australia at the Crossroads,* Harcourt, Brace Jovanovich Group, 1980, p239

of Rome[81] predictions had not then been discredited and Zero Population Growth was a sufficiently popular concept to be referred to simply as ZPG. The oil shocks, caused by the OPEC cartel's in the short term successful attempts to restrict supply, gave rise to widespread fears of serious shortages that would not take the form of unpleasant price rises but an actual shortage of petrol at the bowsers. Nuclear catastrophe was widely predicted. The less spectacular but better evidenced environmental disorders including dry-land salt encroachment, the salting of the Murray Darling river system, city air pollution, species depletion, wind and water erosion, and deforestation were then about as much part of public concern as today but they competed for attention with a different catalogue of unlikely catastrophes.

Even so, the environment did not feature much in the early parliamentary Dries' agenda. *Australia at the Crossroads*, however, addressed the issue in these terms:

> … economic wealth is a precondition for environmental protection.
>
> New extraction technologies and rising prices of any given mineral will tend to increase reserves and resources, as they have in the past, making the exploitation of further deposits feasible.

Its authors clearly did not accept the popular doomsday projections but they did foresee the possibility of environmental concerns limiting access to resources and capital and energy intensive investment leading to a slow down in world economic growth.

By the middle Hawke years and perhaps before, however, an identifiable dry position on environmental matters had been established. Encouraged by an underlying optimism about human ability to adjust to changing problems and opportunities, it had these features:

- The environment includes irreplaceable and limited gene pools, ecosystems and other features … some of them will be of enormous benefit to man and no one can predict which. A practical environment policy must balance the conflicting demands of conservation and development, within constraints (social, economic, political, legal) imposed by society.[82]
- Much environmental degradation occurs because of the circumstance where nobody owns an asset such as rangeland, a fish stock or a water supply, it, therefore, pays people to consume what they can before others beat them to it. In such circumstances sometimes the surest way to protect environmental values is to provide the assets with owners who have the authority and incentive to husband them.[83]
- Where ownership is impractical, as it is in the case with clean air, then usage must be rationed, but even then tradeable emission rights, perhaps above a

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[81] An international think tank that in 1970 published *The Limits to Growth,* which was translated into nearly 30 languages and at the time was thought by many to be a well-founded warning of impending shortages of the raw materials upon which growth would depend.

[82] *Mandate to Govern*, The Australian Institute for Public Policy and The Australian Chambre of Commerce, Edited by John Nurick, 1987.

[83] Jeff Bennett and Walter Block eds, *Reconciling economics and the environment,* AIPP, see index for 'property rights'

small minimum, usually offer the most efficient method of achieving any desired level of air quality.[84]
- Environmental ends necessarily compete with others and to inform the trade off regulators should examine the economic as well as the environmental effects of the developments and proposed controls.[85]
- Miners, foresters, and other developers should enjoy secure although restricted access to their resources.[86]

Dries have since the early 1980s often locked horns with elements of the environmental movement. Three issues have been in continual contention: whether environmental ends are absolute or whether they must compromise with other social ends such as living standards, whether there are not market-friendly ways of protecting the environment; and whether half truths and damned lies may be employed to advance even the best cause.

The media

I am also aware of no evidence that Dries had a comprehensive view on restrictions upon media ownership and on local content rules but at least Jim Carlton had given thought to the issues and I can recall no disagreement. ABC staff in the press gallery did not take me seriously, but I enjoyed at the time telling them that they should be privatised. I did not write the following until February 1989 but I am confident it reflects opinions held seven or eight years before:

> However professional their journalism, private media, like Government media, will from time to time be selective or report inaccurately to benefit a trade union, a business, a political party, a social class or somebody. As well as the inevitable biases of owners, editors and journalists, bias may be bought for cash or favours by Governments and by other private interests.
>
> None of this is a serious problem, as long as there is plenty of competition – right- and left-wing papers, papers that report unions or businesses favourably and so on, do not trouble us. Neither should right- and left-wing, etc TV and radio stations.
>
> Unlike the print media, entry to the broadcasting industry is restricted by Government fiat, and licences are obviously worth a lot of money.
>
> The picture of Messrs Bond and Packer with their arms around the Prime Minister, which appeared in several newspapers about three years ago, therefore raised the possibility of an alliance which is potentially harmful.
>
> The restriction the Government places on the number of visual and sound transmissions that we may legally receive is unnecessary. The average American can receive, at home, 46 TV stations and 39 radio stations. Over 50% of Americans subscribe to cable TV and another 40% could if they wished. The share of the three major networks, ABC, CBS and NBC, has already dropped from 90% to 60% of prime-time viewing.

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[84] ibid

[85] *Mandate to Govern*, The Australian Institute for Public Policy and The Australian Chamber of Commerce, Edited by John Nurick, 1987, p 200.

[86] ibid, p 201 and following

In January 1993 I characterised local content rules as particularly egregious protectionism.

> …local content rules for Australian television are imposed by rulers who fear alien ideas. Restrictions placed on the exchange of ideas are in general even worse than those on the exchange of goods, because what is foregone is more valuable.

The Dries were to fail more completely in their efforts to convince Governments to allow competition in the entertainment and information industries than in anything else.

The Dry MP's attitudes

Dry MPs were not alone in believing that the only lasting way to change public policy was to change what people will willingly accept, but that was one of our distinguishing features. In this we were as one with the liberal think tanks such as the Institute of Economic Affairs in Britain, Heritage, American Enterprise and Brookings in the US and the Institute of Public Affairs and Centre for Independent Studies in Australia, but way out of step with the received wisdom of our political parties. We believed, that leadership was the art not of defying or deluding public opinion but of changing it.

In debates in the party room or elsewhere Dries would make general cases for balanced budgets, tighter control of the money supply, reduced public expenditure, freer trade, deregulation, privatisation, and so on. Agreement around the principle was usually easily obtained, only to dissolve when specifics were raised and it became clear that there would be a political cost. We became a mite cynical about some of our colleagues but more often we were heartened by the support we actually had within the relative privacy of the party room.

We understood very clearly that it was not sufficient to be correct; one's aim had to be to persuade. Invective was employed but sparingly because it mostly did not work. On the other hand we took no hostages. We did on occasion damage the reputations and electoral prospects of people to whom we bore no malice. Aware of what we were doing we were more nervous than I think our public performances showed. Given the trouble we caused and our willingness to flout party solidarity, it is remarkable how little enmity we incurred from party colleagues. We were exceptionally careful not to break confidences and were extravagant in praise of the Government whenever we felt it had been principled and courageous. Nevertheless, we backed our own judgement a long way and had reason to be nervous.

Chapter 5
The think tanks

With public sentiment, nothing can fail; without it nothing can succeed. Consequently he who moulds public sentiment, goes deeper than he who enacts statutes or pronounces decisions. He makes statutes and decisions possible or impossible to be executed.

Abraham Lincoln, 12 August, 1858

Politicians can and often do lead public opinion, but they only rarely contribute significantly to the ideas with which they do it. Those few who have fancied themselves as intellectuals have generally made poor statesmen, even dangerous ones. The pollie should be able to understand abstractions but original thinking is a specialist's pastime for which he has neither the time nor temperament. He hears endless criticism but surprisingly few of his critics even try to take a nation-wide view of whatever it is that they are deploring this week. Most of the advice upon public policy coming from the 'experts at the coal face' is so dominated by self-interest that it is worse than useless – it is the principle source of corruption of political processes.

Some time in 1978, a colleague sitting beside me in an aeroplane was reading the proceedings of the first seminar of the Centre for Independent Studies (CIS). I had been told that CIS shared the rather unpleasant 'right wing' views that were prevalent in Sydney at the time and I had dismissed it without further inquiry. I was, nevertheless, so struck by the liberality of what I read and the competence with which the arguments were marshalled that I arranged to meet its director, Greg Lindsay. Because I believed that the Government I sat behind was ducking the hard issues my need for informed, reasoned criticism from people of liberal persuasion was already apparent to me.

This chapter concerns the dry think tanks established to lead public sentiment in the classical-liberal, dry direction. The Swedish economist and politician Gunnar Myrdal discussed the influence of thinkers upon politics in these terms.

> Politicians must develop a relish for living intensely in the present moment and letting its accidental constellation of circumstances dominate their perspective…. In general, political leadership in a democracy implies keeping oneself at the head of the flock wherever it is drifting…. The honest and responsible politician… can contribute greatly to the raising the intellectual level of the public… but the steady pedagogical urge to rationality in political questions must be provided largely by people who have their status independently of the general public….
>
> … in the institutional set-up of modern democracy…, a function most important for its survival and growth falls on the social scientists: the long-range intellectual leadership thrusting society forward to overcome primitive impulses and prejudices and to move it in the direction of rationality. Our independent status should not be merely a personal pleasantness and distinction; it should be used as a basis for exerting influence over the development of the thinking of the general public….[87]

[87] G Myrdal, *Value in Social Theory*, London 1958, pp 21-24

Although commonly referred to as 'think tanks', there is an aspect to them that is more important to this story than their original thinking: they carry briefs for the general interest against the specific and for freedom against collectivism before the court of public opinion. Although most are academics, the advocates who find their ways to them mark their success not in footnotes but in improved public policy. They are change agents.

Although most authors and nearly all the think tanks eschew political party affiliation, they play roles in the great game of politics by its rules. Politics, properly conducted, is an honourable pastime but nearly all the think tanks, nevertheless, protest that they are not political. They mean not party-partisan. Most of them in fact carefully cultivate individuals from both sides of political chambers, being fairly careful to maintain a balance.

Their publications, which sometimes tackle the toughest political issues such as indigenous policy, are not found just in unread academic journals. They are as widely circulated as funds permit, and are written in language that laymen appreciate and in terms relevant to the formation of public policy.

The dry think tanks share a philosophical preference or, as opponents contend, a bias. Their 'bias' is, however, explicit. It is preference for personal freedom, legal equality, abhorrence of privilege and for time-tested social values. Those who run them are professional recognising the same standards and using much the same techniques. Before proceeding to the record of particular think tanks something can be said about what they have in common.

The Mont Pelerin Society

In 1947 a group of 39 from 10 countries met in the Hotel du Parc at Mont Pelerin near Vevey in Switzerland to discuss liberalism and its decline, the possibility of a liberal revival and the desirability of forming an association of people who held their convictions about the nature of a free society.[88] The initiative was Professor Hayek's, then at the London School of Economics. Hayek was a leading figure among the 'Austrian school' of economists and author of *The Road to Serfdom*. He was to receive a Nobel Prize in 1974.

Although the war had discredited Fascism and National Socialism, the underlying tenet of those doctrines, namely, individual subservience to the State, then had upwards of three decades of comparative popularity to run. Individual liberties were being swept away in the newly Communist states and gradually eroded by intrusive Governments in the democracies. The collectivist trend had seemed inexorable even to those who opposed it.

Ultimately the weight of socialism's manifest failures contributed more to its downfall than did scholarly debate. Nevertheless, the persistent, if uneven, rise of liberalism during the final quarter of the century cannot have been written in the stars, barbarianism has lasted longer than civilisation. Who knows for how long, in the

[88] R.M. Hartwell, *A History of the Mont Pelerin Society*, Liberty Fund, Indianapolis, 1995.

absence of the well-articulated liberal alternative, governments would have persisted with public ownership and control of the means of production, distribution and exchange? Who can say what new doctrine promising heaven on earth might have been tried, or what atrocities might now be being committed in its name? In any event, the encouragement and intellectual exchange of the Mont Pelerin Society played an important part in formulating critical review of all forms of socialism and in promoting the merits of freedom.

The idea that no one should be trusted with the authority to enforce a better world upon the rest of us had to be explained, given relevance to immediate concerns and popularised. To this end, a considerable network developed. The Mont Pelerin Society's role in this has remained much as Hayek envisaged – a forum for some of the world's best minds in the social sciences. Its members have included an impressive number of Nobel Laureates. Australians are disproportionately well represented among the MPS's elected members. Using the staff of the Centre for Independent Studies they have run three regional meetings, one in Sydney (1985), one in Christchurch (1989) and another in Bali (1999). Greg Lindsay, is currently a Vice President.

The Society, not formally but in practice, has been at the apex of a conscious effort to propagate the liberal ideal. At its 1996 biennial plenary conference, privatisation and competition could be discussed in papers delivered by hands-on political leaders from the Russian and Czech Republics. It inspired people at hundreds of think tanks throughout the Western World. Some of these were particularly interested in the Austrian approach to social policy with its emphasis on institutions that protect individual freedom and that help people discover useful knowledge. This contrasts with the neo-classical approach of mainstream economic and sociology emphasising aggregate welfare within the bounds of current knowledge. However, as both approaches abhor privilege and Governments that knowing what they ought to do did something else (political corruption), the differences had far less relevance to the conduct of 'the good fight' in Australia than what they had in common.

Professional Advocacy

The Atlas Foundation (of which more below) has encouraged these think tanks, and importantly it has inculcated the few rules that keep liberal/conservative/neo-conservative/neo-liberal/free-market/dry advocacy objective, influential and out of trouble. (The terms tend to be country-specific.) The rules bear repeating:

- The aim is to change the climate of opinion by argument alone. Affiliated organisations should not therefore become involved in political power plays, or offer advice that is not on the public record.
- Sources of funds should be numerous and diverse enough to ensure that advocacy is not beholden to funders. Particular care should be taken not to become beholden to Government finance.
- So far as is practical, rigor should be maintained by independent research committees and the practice of appointing referees for publications.
- Advocacy must serve the public interest, not some narrower interest such a political faction, the business community, farmers or trade unions. In practice the relevant publics have tended to be defined by national and, for some of the smaller tanks, state boundaries.

The temptation to break each of these constraints is ever present. Nevertheless, conversations with people working within the Atlas affiliates convinces me that the first three 'rules' are normally complied with. However, it should be admitted that the three major Australian dry think tanks each broke the first rule by coming out against the Joh-for-Canberra Campaign. In this context I was reported saying that '[liberal policy tanks'] greatest danger comes not from opponents but from Genghis Khan types who think they may be our allies'.

The fourth is more difficult to assess. People do not always agree upon what policies in fact advance freedom and the public interest, and nearly every vested interest, upon finding that its privileges are challenged, will accuse its critic of serving some other vested interest. The most common accusation is that the institutes serve business interests even though that accusation is difficult to reconcile with their consistent advocacy of competition and opposition to tariffs, subsidies and tax breaks. ABC television once accused the Institute of Public Affairs of being beholden to a mining company that had declined to provide it with a cent. The ABC journalists based the accusation on the easily-filmed miner's logo in front of the building in which both the IPA and the miner were tenants.

Sir Antony Fisher, a Battle of Britain pilot, survived World War II to become convinced that Britain was heading down the same collectivist path that Hitler would have taken it – albeit without resort to murder. He raised his fears with Hayek who convinced him that the only feasible insurance was to win the public debate. It was all very well, said Hayek, for people like himself to meet periodically as they had at Mont Pelerin but liberalism's virtues must be expounded to a far wider audience – dealers in the ideas that he and others like him developed were needed. Hayek advised Fisher to spend his money not on trying to influence politicians directly, but to invest in a think tank that would, by reasoned argument, make the case for economic freedom to the general public.

Fisher, who had first made quite a lot of money farming poultry, then devoted much of it and his time from 1955 onwards to founding the London-based Institute of Economic Affairs (IEA). It was to do more than anything since the Battle of Britain to save Britain from collectivism. Under the Directorship of Ralph Harris and Research Directorship of Arthur Seldon its authors were to provide the ideas that 24 years after the IEA's formation sustained the Thatcher revolution.

Think tank directors in many countries today still regard the IEA as archetypal. It avoided political party involvement, concentrating on influencing the intellectual climate alone. Its hundreds of publications were written by academic economists but were short – seldom more than fifteen thousand words – and addressed to a lay readership. Harris was a brilliant publicist, Seldon a brilliant editor. Publication titles ranged through *Unemployment and the Unions, Paying for Social Services, Resale Price Maintenance and Shoppers Choice, Financing University Education, Advertising in a Free Society, Picking Winners, Denationalising Money, Monetary Policy for Stable Growth* etc etc etc. By their rigour alone these won respect for the Institute and the ideas. Thus faith in collectivism was worn away from its more vulnerable edges.

When the IEA was well established, Fisher turned his attention to the role of ideas in the future of other countries. He next assisted in founding the Fraser Institute in Canada. Then, with the Institute of Humane Studies of the United States, he formed the Atlas Foundation, and that assisted with founding liberal institutes in many countries, some of them much less free than Britain or the US. The IEA thus became the model for many other liberal think tanks mainly within the English speaking world, Latin America and latterly Eastern Europe.

Organisations, such as the Fraser Institute, American Enterprise Institute (AEI), Heritage Foundation, Cato Institute and Australia's CIS have international reputations but most do not. Some have annual budgets twenty times greater than the CIS, but again most do not. There are now more than 40 in Latin America alone. To varying degrees each differs from the archetype. A very few, such as AEI, undertake original research which would grace the best universities. Many specialise in areas such as local Government, state Government, economic issues, ethical issues or the relevant local community. The Acton Institute, for instance, concentrates on getting socialism out of the churches and morality back in. The *raison d'être* of each is, by public argument alone, to bring about a freer society with less entrenched privilege.

Conspicuously brave people have managed a few. I once asked a tiny but fiery little lady who with her husband ran one of the South American organisations how she could be sure they did not over-step the unclear mark set by the dictatorship they preached against. As nearly as I can remember, she replied, 'Yohny, we can't, but we keep the tickets current and the kids will be in Los Angeles before the bastards catch them'. She did not convince me that that was all there was to staying out of gaol but she silenced me. I still get a lump in my throat when I think of her.

Before describing professionalism in the ideas-propagation game, however, an inevitable accusation needs an answer. Are not the dry advocates, like advocates for a socialist society, trying to mould society to their own liking? To achieve a particular form of society, yes; but to 'mould' it, no. They seek only such influence as may be gained in the forum of public opinion where their ideas cannot escape being tested against opposing opinions. Of course, many advocates of the opinions they oppose accept the same discipline. The dry advocates are, however, distinguished by arguing against the accretions of authority by which societies can be engineered.

Think tanks risk a form of political failure that reminds me of the charge of the Light Brigade: *'C'est manifique, mais ce n'est pas la guerre'*. The field of public affairs is crowded with policy wimps but there are also the empty horses of those who choose glory over success. The only legitimate weapons in 'the good fight' may be words but, like all warfare, its only reasonable goal is victory – in their case the voluntary acceptance of their ideas in a very competitive market. Bruised opponents and pedantic demonstrations of superior intellect may be satisfying and even earn glory among the cognoscenti, but those who need persuading are likely to be merely irritated. At all levels of the intellectual debate, arguments need to framed to convince those who do not already share the opinion, not to amuse those who do!

Unlike policy wonks, a reasonable man spends little time on political issues. Getting but one vote in millions and that for a package he cannot divide, he is 'rationally ignorant'. The way to get to our reasonable man, to the extent that one can get to him,

is through the values he already holds. People encounter a political proposal and quickly assess whether the reform idea seems to advance or threaten their core values, and support or reject it accordingly. A values-based (rather than a facts-based) marketing strategy is called for. There is not much that policy promoters can do to change people's values but they can, and to succeed must, link their policies to other people's values. Fortunately, core-values are nearly universal.

Dries too often fail to explain how or even to assert that their penchant for liberty benefits the elderly, children, aborigines, the ill and the disadvantaged generally. Rationally ignorant voters may, therefore, dismiss their arguments without even taking them aboard, let alone considering them. The advocate who is unwilling to seek out common ground and base his arguments upon it will never be effective. People who have employed sound arguments while not bothering to understand the people to whom they ought to be speaking have not been persuasive. To get their prescriptions right, successful advocates need hard heads but, if their hearts are not seen to be as soft, they will not be heard. Those who either don't have or have hidden their soft hearts more than waste resources; they create opportunities for ideological and self-serving opponents to portray the arguments, the advocates and their organisations as objectionable. Then people dismiss the sources without bothering to check, as I once dismissed the CIS!

One does not associate with these think tanks to get a PhD. I once heard Milton Friedman refer to the Institute of Economic Affairs as a 'dealer in second-hand ideas' an expression first employed by Hayek. He got Arthur Seldon into a bit of lather and he was not wholly correct, IEA authors had applied standard theory to problems in ways that were indeed original. Nevertheless, Friedman had identified the essential, if not the only, feature of organisations such as the IEA. In the political game, unlike the academic, it is more important to be correct than to be original and much to be gained from sound argument oft repeated. When one takes on well-financed vested interests it does not pay to be wrong about anything.

The dry think tanks are, therefore, no places for wild-eyed visionaries but, as good cooking attracts blowflies, they attract them. To minimise the risk of squandering credibility, well run public-policy foundations in the more controversial policy areas tend to advance policies that are supported, at least, by well-established theory and appoint Boards of experienced practitioners to offer guidance. Wherever possible they prefer to be able to claim that their recommended policy or something like it has been tried elsewhere and it worked. However, they cannot afford to be dull. A capacity for lateral thinking can be valuable and the quick shot from the hip can be effective, if risky.

While running a think tank, the AIPP in Perth, for two years I was able without a calamity to participate with the late Jack Marks, a notorious Lefty, in a weekly radio chat show. The issues flowed fast, were not predictable and were chosen to be contentious. I tackled the trade union movement, the Labor Party and the Liberal Party in damning terms. Perceived and real errors, if only of emphasis, were inevitable and unsupported assertions flew about. One reason that I believe I got away with shooting from the hip when debating Marks was that Jack and I would, amid serious discussion of an issue, keep up a steady banter, much of it very politically incorrect. We got hey-come-off-it calls from listeners, but I can't recall one that was

angry and an experienced radio announcer once enthused to me how wonderful it was to have such 'civilised disagreement' on air. It wasn't civilised in any sophisticated sense, just fun. Yet, for what the feedback was worth, it did more for my Institute's standing in WA than any other activity. Perhaps also, people who take themselves too seriously make poor advocates. If you are going to dish it out in the party room, the press or anywhere else, you've got to be seen to take it smiling.

The public can smell hypocrisy, class attitudes and self-interest in the most innocuous press release. The problem is obvious: one's own prejudices are the hardest to see as such. It is without complete remedy but a well-chosen panel of referees vetting publications certainly helps.

Finally, although others do influence the long-term climate of opinion by using impact advertising[89], it costs millions that dry think tanks do not have. Therefore, their messages must be targeted initially to people who will repeat them – media, politicians, business corporate affairs departments, those CEOs who give tongue, church and union leaders and the ideas network itself.

Since everyone may 'free-ride' hoping others will put up the money to protect the liberal society, the think tanks' arguments, like all 'public goods', are hard to finance without access to taxes.

The IPA

Once it became probable that the Allies would win World War II, far-sighted people thought about the Australia that would emerge from it. Chiffley's 'Light on the Hill' and Menzies' 'Forgotten People' speeches in due course reflected their concerns. However, well before those public expressions of conflicting aspirations, in 1943 the Institute of Public Affairs (IPA) had been formed to influence post-war reconstruction. It predated the Mont Pelerin Society.

At the time, we had a heavily regulated war economy. Many commodities from butter to petrol were rationed and there was a highly prescriptive manpower policy. There was also an active black market. The Great Depression had not long passed and Australians were determined, if at all possible, never to go through that again. The USSR had been a brave ally, and socialist, utopian idealism was fashionable. Wartime propaganda had encouraged faith in Government that does not exist today. The spirit of the times was without doubt collectivist. George Orwell, writing from Britain in *Partisan Review,* Winter 1944, of the attitudes of intellectuals to the war and post-war aims, did not list one who held that the survival of capitalism was both possible and desirable.

Many Australians believed that the wartime powers could and should be employed to build a better nation. The Labor Government, in power in Canberra throughout the major part of the war, had made no secret of its adherence to socialist principles that

[89] Businesses use TV advertisements to change attitudes to the products or the businesses themselves; industry and union advocates do the same; so do Governments and political parties. The most notorious (mis)use of impact advertising (but of course not TV) was, perhaps, Hitler's.

are today discredited. The Non-Labor parties in Canberra lacked core principles and were in serious disarray.

C.D. (Ref) Kemp, the first director of the IPA in Melbourne, had worked as a personal assistant to Sir Herbert Gepp who had been instrumental in the Institute's foundation. After the 1943 election, the Victorian but not the NSW IPA eschewed party political activism to concentrate on a didactic role.

In 1943 Kemp wrote to a member of his Council:

> The political back-biting and sniping is not for our organisation. Leave that to the people who have always done it. I have always looked on the job of the Institute as being to make a really worthwhile contribution to thought and action in Australia. There is plenty of room for it, God knows. The 'sex appeal' methods of business have always failed and will fail again. We want something more solid and enduring.

Fifty-nine years later, that is the opinion of tens of thousands associated with hundreds of similar organisations.

The Victorian organisation, however, had close links with protected industry that it was not to shake off until the 1980s. Sir Walter Massy-Greene, who had championed protectionism in Federal Governments before 1922, was a member of its founding Council.

In October 1944, the IPA published *Looking Forward*. This one publication, written by Kemp with guidance from a committee of industrialists and bankers, on the broad face of the evidence at least, had profound influence on future national Governments. Fifty thousand copies were circulated that proposed public policies which, while sufficiently consistent with the beliefs and aspirations of the time to gain acceptance, would preserve the free enterprise system.

At the time, *The Bulletin* described it thus:

> It is by far the most comprehensive and intelligent set of inquiries and recommendations concerning post-war problems that has yet been published by any similar body or government department.

Menzies wrote to Kemp:

> Last night I read *Looking Forward* of which I understand you are one of the principal authors. It is in my opinion the finest statement of basic political and academic problems made in Australia for many years. I feel most enthusiastic about it and would like to see its substance conveyed to the people as widely as possible....

Looking Forward was able to set the terms of the debate because it appealed to values that were already widely shared. In an obituary published in *IPAReview* following Kemp's death in 1993 Shaun Kenaelly had these things to say about it. They give the flavour of the publication:

> *Looking Forward* makes the case for independence of business; clears up confusion on the questions of prices and profit; argues strongly for individual responsibility and initiative and speaks directly of service as a managerial ideal. It

> warns of the dangers presented by monopolies, but points to the special advantages flowing from large-scale industrial aggregates. It does not neglect small business. It suggests that restrictive trade practices bring both bad and good, urging for close public scrutiny. But trade unions, it says, are also restrictive. It is not hostile to the state but argues for very clear lines between what governments should attempt and where they were being intrusive.

When assessed against the practices of the governments of most western countries in the 1990s, *Looking Forward* was far from dry, indeed it is in many ways corporatist, but, assessed against the worldwide opinions of its time[90] and calls for nationalisation in Australia,[91] it was drier than the alternatives. Because of its high quality, its timing and the care taken to appeal to the aspirations of a war-weary people, it influenced the policies of the fledgling Liberal Party with which the Victorian IPA declined formal association, appealing to the public over Menzies' head.

Success has a thousand fathers, and the IPA's central role has been questioned. But the argument that the IPA lacked direct input to those who wielded power is not relevant. The IPA did not need that input and eschewed it. What cannot be denied is that the ideas it espoused in the forties prevailed during the fifties. Many appeared verbatim in the 1945 Liberal Party platform. Ref Kemp's son David tells us that 'The general tone of the suggestions adopted [by the Liberal Party] stressed a democracy "in which the common interest will be preferred to particular interests", be they trade unions, capital, the land, manufacturing industry, or returned service men.'[92] Subsequent Coalition Governments and the IPA itself was to fall under the baleful influence of Victorian manufacturers but, bearing Massy-Greene's influence at the IPA in mind, the statement itself is a remarkable declaration of the principle that Government stood above sectional interest for which Kemp must be given the lion's share of the credit.

By 1985 the Sydney IPA had an annual budget of $120,000 and the Melbourne IPA $300,000. The Melbourne IPA, which had in the intervening years gone through periods during which its influence was minimal, was over the next five years, under the Directorship of Ref's younger son Rod, to take off both intellectually and financially. From that time forward it preferred the common interest to the particular with vigour that dismayed some people from protected industry and some of the Melbourne establishment.

It amalgamated with the AIPP in 1991 and with the Tasman Institute ran *Project Victoria* that was to have considerable influence on Government in Victoria under Kennett. (See Chapter14) In *The Kennett Revolution,* Rosemary Kiss accused the Kennett Government of '… pursuit of an agenda drawn up at least in part by a think tank operating on behalf of business interests.'[93] The IPA denied that many of its recommendations could be said to have favoured business (particularly in Victoria where so much of it was protected) but it welcomed the affirmation of its influence.

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[90] For instance the British *National Policy for Industry.*
[91] For instance those of Professor Copeland and the Labor Party
[92] D.A. Kemp, *The Institute of Public Affairs,* 1942 – 1947, p. 22
[93] Rosemary Kiss in *The Kennett Revolution*, Editors: Costar and Economou, UNSW Press, 1999, p 115

Throughout most of its 58 years it had published *Facts*, presenting reliable data from conventional sources, often demonstrating that the world was not as portrayed. These facts became the bases of many political and business addresses. By the 1980s it was also producing *IPA Review,* a magazine arguing the dry point of view, and *Backgrounders* offering more involved argument on current public-policy issues.

In the mid-1980s it set up a States Policy Unit in Western Australia. This concentrated on State Budgets and built a reputation such that its opinion on State Government fiscal matters was regularly sought. Each year it identified the best and worst State budgets. When the Field Labor Government in Tasmania was praised in consecutive years for the most rigorous budgeting and used the commendation in political advertising a discipline had been imposed on all State budgets. South Australia, twice awarded the lemon, even made noises as though it might sue. Of course it would not: even if a plaintiff could be identified, no Government would court such adverse publicity but, just in case, I advised them of a long list of the nation's economists I might bring as witnesses.

By the 1980s the public had become heartily sick of schooling that did not educate and the IPA had little difficulty finding funds for an Education Unit. It gathered data and horror stories on the effectiveness of curricula and teaching such as the *New Wave Geography*, a Victorian schools textbook, that told children that people in the USSR had more than enough food while about half of USA and Britain were areas of severe under-nutrition. It brought international authorities to Australia.

In 1993 it published *Black Suffering White Guilt?*. This questioned whether continued Aboriginal disadvantage could be explained in terms of 'racism', particularly the then popular concept of 'institutional racism', and the wisdom of collectivist policies that assumed that Aborigines were all the same but dissimilar from other Australians. It was I believe one of the most difficult papers produced by an Australian think tank but also one of the most influential.

The Sydney IPA ceased activity in the late 1980s with much of its resources going to the Sydney Institute. It does not have an overt philosophical commitment but it contributes to the quality of public debate with effective speakers' forums.

Since Rod Kemp's time the Melbourne IPA concerned itself with the here-and-now of public policy formation. It has taken on the tough political issues such as budgetary incontinence, indigenous policy and the Victorian educational curriculum. It has not been as given to lofty statements of general principle as most dry think tanks. The Centre for Independent Studies has in contrast relied more on articulating general principles taking a longer-term more philosophical approach to reform.

The CIS

Following my discovery of the CIS, I was introduced to Greg Lindsay by Austin Holmes. Later with Jim Carlton and Peter Baume I had called on Lindsay again. He did not then seem to us to have the standing and presence to do in Australia what the Institute of Economic Affairs was already doing for liberal ideas in Britain. Lindsay did not wear his extraordinary strength of purpose and courage on his sleeve.

He had founded the CIS in 1976, in the wake of the illiberal excesses of the Whitlam experiment. At first operating from the garden shed of his home, its brochures proclaimed that it existed to develop and promote 'ideas supportive of a free, open and prosperous Australian society'. By then the issue had become the considerable gap between the Fraser Government's sometimes-liberal rhetoric and its performance.

Like other liberal public-policy institutes, it set out to change public opinion by commissioning and publicising studies of policy-relevant issues from the perspectives of liberal economics, politics and sociology. It has also sometimes drawn on the insights of the philosophy of ethics. Its publications are mostly less than 100 pages, readable and rigorous. Referees review the papers before publication is considered and a committee of academic advisers, several with worldwide reputations, lend their standing to them. From the CIS's earliest days, Lindsay was able, without the funds to pay anything but trivial fees, to induce academics of the highest standing to write for him. It subtracts little from his remarkable achievement to observe that some of his authors must have been frustrated by their inability to reach the public and policy making elites via the academic literature.

A Board governs the Centre but it was Lindsay who built it. It is fiercely independent, taking no money from Government and only from such diverse private sources that none by threat or promise can influence the opinions expressed. It operates today on an annual budget of about $1.6 million with the larger part coming from private subscriptions rather than those of large corporations.

No description of free-market think tanks could convey their flavour better than Greg Lindsay's own account of how he formed the CIS, first published in interview form in the CIS magazine *Policy*. His concern about the state of Australia, the books and people who most influenced him, the procrastination and initial difficulty in getting financial backing, his preparedness to live poor while this was done, his determination to erect the 'Chinese Walls' that would insure his independence, the support of like-minded academics, the *esprit de corps* and the networking are all typical. Nothing was more important to its success than Lindsay's determination.

> Greg Lindsay:
> During 1974, I saw an article in *The Sydney Morning Herald* which sparked my interest. The article was an interview with a young engineer, Bob Howard, who had an Ayn Rand discussion group which he ran in his flat in Glebe. He had thousands of books and I came across then ideas I'd not heard of. I decided when I began teaching to go back to university to do philosophy and formalise my thinking. I studied philosophy part time at Macquarie, focusing on John Locke, David Hume, Adam Smith and people like that. Bob Howard's discussion group was the genesis of the Workers Party which had a short but prominent life, mostly in 1975.
>
> I think I started subscribing to *Reason* magazine in 1974 and began to buy a lot of books from the Foundation for Economic Education in New York. My first copy of *The Wealth of Nations* came from there, as did Milton Friedman's *Capitalism and Freedom* and Hayek's *The Road to Serfdom*. I came across an organisation called the Centre for Independent Education in Kansas which reinforced some of my thinking about school education – an abiding interest of mine. During the

summer school holidays at the end of 1975 I decided to go visit these institutes in the US. From Kansas I went to New York, where I met the economist Murray Rothbard. I recall helping him and his wife stuff envelopes on their living room floor, thereby starting a lifetime career.

In 1975 the political turmoil continued. One of the things that annoyed me at this time was that commentators in the media always thought that Government was the solution to the problem. I thought 'No, it's not'. We could see that the Labor Government was not governing at all well, and I had not been impressed with the previous Coalition Government. By this stage my own reading had made me think that there had to be a better way of doing things.

Interviewer:
But thousands of other people would have had similar ideas, but not gone on to found think tanks.

Greg:
I was always a doer. I was involved in the Scout movement for much of my youth. I ran a very successful Venturer Unit in my early twenties. I was always able to mobilise people. I helped set up the most active branch of the Workers Party. We ran Bob Howard in the Berowra electorate in 1975, and from memory got 12 or 13% of the vote, which was very high for a minor party.

People used to ask Ralph Harris [now Lord Harris of High Cross], founding General Director of the Institute of Economic Affairs in London, how he came to be as he was, and he used to say that he was one of the awkward squad. To him, that probably meant that he would see something and think it was not right, or he would go counter to what was going on. There was something in my make-up that made me think about things differently from my friends.

During 1975 I had read Hayek's essay *The Intellectuals and Socialism*, which in one sense was the most important piece that I'd read. It made me realise that what I was seeing was an intellectual problem, not a political problem. After I came back from America, and having thought more about the role of ideas in politics, I decided to get out of the Workers Party, and set about trying to establish an institute.

In thinking how the think tank should work I only had a few models, but knew that academic supporters would be vital. I read in *Quadrant* a review of Robert Nozick's *Anarchy, State and Utopia*, a book I'd recently read. [It had been reviewed] by Lauchlan Chipman, then a Professor of Philosophy at the University of Wollongong, and I wrote a letter to him. I told him what I was planning to do. I came across another academic John Ray, who had edited a collection, *Conservatism as Heresy*, and I organised a seminar in October 1976 at Macquarie University with Chipman and him as speakers. Chipman gave a paper that we subsequently published as a CIS Occasional Paper, *Liberty, Justice and the Market*. Ray gave a paper on notions of freedom.

During 1976, I learned that Antony Fisher was coming to Australia. By this stage I had found out more about the IEA and discovered that it was he who had the

original idea for the Institute, following a discussion he'd had with Hayek in the early 1950s. He and a group of people were trying to start an IEA-style think tank in Australia. I thought 'Oh damn it, just when I was starting my own think tank.' He addressed a few meetings and I found out that he was staying at the Wentworth Hotel in Sydney, and that the fellow taking him around was John Bonython, who was to be very helpful in the years to come. I spoke to them both. Fisher wished me luck.

Lindsay was making the contacts he would need.

On his second visit in December that year, I went to a meeting he addressed in Mosman, and happened to sit next to Maurice Newman. It transpired that Newman had brought Milton Friedman to Australia in 1975 and had been invited by Friedman to attend a meeting of the Mont Pelerin Society, an international society of classical liberals founded by Hayek in 1947.

Meeting Maurice was one of those important points in the history of the CIS. Another was meeting Ross Parish, then a Professor of Economics at Monash University. Ross had bought some conference papers from a conference I'd organised at Macquarie University in April 1977 and I went to see him on a trip to Melbourne later that year. Other early connections came with Sudha Shenoy at the University of Newcastle, Naomi Moldofsky at Melbourne University, Warren Hogan and Colin Simkin, both at the University of Sydney, and Michael Porter at Monash. Out of these various meetings came a conference, held also at Macquarie University, in April 1978.

The theme for the weekend meeting was 'What Price Intervention? Government and the Economy'. Participants included Porter, Hogan, Parish, Lachlan McGregor, Peter Samuel, and Ted Sieper, and we also decided to try to get Alf Rattigan. Rattigan agreed and was the after dinner speaker.

Greg needed publicity.

A hundred people turned up, including Paddy McGuinness who was at the time Economics Editor of the *Australian Financial Review*. The next Tuesday, Paddy wrote an article in the AFR, 'Where Friedman is a Pinko', giving my phone number and address. We had days of messages.

Interviewer:
What were all these people responding to?

Greg:
I think a lot of them were glad that at last people were taking some of these role-of-Government issues seriously. We were trying to discuss the costs of Government and provide some answers. We sold hundreds of copies of the conference papers. We set out to maintain a high academic standard, and were successful on the first real test.

The immediate follow-up was that the IEA group, and particularly Derek Sawer at BHP, began to take us seriously. They decided that perhaps there was no point in pursuing an institute of their own and invited me down to Melbourne. I flew down

> in May (school holidays) for a lunch. They were mostly economists: John Macleod, John Brunner, Sawer, Mike Porter, Doug Hocking, Ross Parish, and some others from companies including Bruce Kirkpatrick from ICI. I talked about my vision, and everyone was agreed that the CIS should be supported. But nothing happened.

Greg soon discovered something that most pioneers learn. Despite the many people with good intentions, his enterprise would depend on him.

> I resolved that nothing would happen unless I kicked it along myself, so I took leave without pay from my teaching job at Richmond High School during 1979. Two of my earliest supporters, Neville Kennard and Ross Graham-Taylor, provided some financial support, so I was not entirely without income. Perhaps more importantly, my future wife, Jenny, who I had met when she was in university, was now working and this made taking the risk much easier, though I don't think her parents viewed me as much of a prospect for their daughter.
>
> Sitting in that backyard shed in Pennant Hills wondering what on earth I was doing was an interesting time. I got to read a lot. There were a number of key events that year that were critical. Most of them revolved around people. For instance, the establishment of the Australian Graduate School of Management brought us Ray Ball and Malcolm Fisher who became active in the Centre in the years ahead.
>
> Hugh Morgan was a part of the IEA group, but I had never met him. I figured that he was a key individual. I rang him up and said that I'd like to come down to Melbourne to see him as I thought this institute business was stalled and it was time to stop the talk. I flew to Melbourne, either the next day or the day after, and he said let's not muck about on this any longer. He rang up some people and got seed money commitments amounting in total, once others came in, to about $40,000. This was committed per year for five years. We had our, albeit small, funding base and in 1980 moved to St Leonards where for 10 years the CIS, atop Uncle Pete's Toys, set out to build its reputation and pursue its mission.

The diary I kept during the final four years of my parliamentary term records several meetings with Lindsay and CIS people. By 1979 the CIS and the Dries in the Federal Parliament regarded each other as effective allies in a common cause that had nothing to do with party politics.

The AIPP

Shortly before the 1983 election, Bill Clough, youngest son of Perth's leading civil engineer, Harold, approached me to seek advice upon who might run a free-market think tank based in Perth along the lines of the Heritage Foundation in the United States. He, his sister Sue and his father would back it. I told him I was about to lose my seat although I am sure he knew as much already. Late in 1983, we formed the Australian Institute for Public Policy (AIPP).

I copied the CIS's legal structure (Greg Lindsay had copied a bowling club) and its methods before heading for further instruction from the 1983 Atlas Foundation meeting in Vancouver. AIPP's budget by 1985 was only about $80,000 but this was

expanded to over $400,000. Taking its style from the Heritage Foundation, it concentrated more than the CIS upon immediate policy concerns employing short pamphlets and making media comment.

Many people call for smaller Government and for lower taxes but few will say what Government programs they would cut. From 1985 until its amalgamation with the IPA in 1991, infuriating several vested interests, AIPP published the cuts that would allow Federal budgets to be balanced without increasing taxes. It twice made similar recommendations for the Western Australia.

Like Heritage, we tried to set agendas by stating what interpretation should be placed upon impending reports and political decisions. Our success was mixed but in 1985, before the release of the Hancock Report on industrial relations, we published a paper asserting the issues that it should address. BRW covered the publication in detail and in that case, either we influenced the report's media reception or we anticipated to an extraordinary extent what commentators already believed. The media decried its failure to address the issues that we had raised.

In June 1987 the AIPP published a short paper titled *The Forgotten Issues*. It deplored the emphasis on taxation to the exclusion of serious debate about expenditure and the more important supply-side issues, trade, the labour markets, transport and communications. Another of the more successful publications addressed Australian grain-handling[94] concluding that in a deregulated environment Australian grain-growers would be $10 to $20 per tonne of wheat better off than they were.

In 1988, in co-operation with the Australian Chamber of Commerce, on a $100,000 budget that was not quite raised, AIPP produced *Mandate to Govern – A Handbook for the Next Australian Government* – of whatever party. The idea was copied on a smaller scale from The Heritage Foundation's *Mandate for Leadership* that is reputed to have had a considerable influence upon the Reagan Administration. We kept a white board prominently displayed upon which Government action and Opposition promises to implement its recommendations were recorded.

The early (and, for want of experience, least well done) proposals for budget outlay and tax-expenditure[95] cuts received wide publicity and on one occasion the Department of Finance graciously asked for copy. I doubt that our list contained a single item that the Department had not already considered but our publication should have done something to convince the public and some backbenchers who would never see a Treasury 'hit list' that budget cutting was a realistic option.

AIPP opened a Canberra office run by Sir William Cole, an ex-Secretary of the Department of Finance. He improved both the quality and credibility of our budgetary recommendations. In 1990 he produced a list that included: changing health insurance arrangements to encourage the wealthy to pay more of their own way (saving $800 million); reducing university grants while encouraging the institutions to charge modest fees ($400m); tightening the administration of AUSTUDY ($47m); cutting

[94] Denis Hussey, AIPP, Policy Paper No 6

[95] Tax-expenditures are exemptions from the general tax provisions available to favoured taxpayers.

aboriginal affairs spending by 5% ($25m); recovery from farmers of 90% of the cost of quarantine and inspection services ($45m); abolition of the First Home Owners Scheme ($153m), the Australian Institute of Sport ($22m) and the Australia Council ($50m); and 39 other spending cuts.

In some quarters this was not well received. A representative of the Australia Council telephoned me about Cole's recommendation to abolish that organisation. My angry interlocutor seemed unabashed by the evidence that of its budget of $58 million[96], $8.7 million was being spent upon administration, making the Council's 117 staff the largest identifiable beneficiaries of the Council's existence. Such blatant selfishness and ministerial gutlessness in dealing with it was too common, but was not a fair sample of human nature. The influence that AIPP and the other advocates of less intrusive Government sought depended on the millions of people who did not come begging and whining at Governments' doors.

As the CIS was to do with greater success, with Dr Alan Tapper's *The Family and the Welfare State,* the AIPP turned its attention to cultural/social issues, taking up the cause of the family. We felt that the talking class had advanced an anti-family culture that accorded till-death-us-do-part marriages no honourable status, even characterising them as oppressive. Governments that had once illiberally favoured heterosexual married families now illiberally subsidised anti-family propaganda and provided tax/welfare benefits to single parents that were more generous than those available to those who married and stayed married. The study attracted sharp feminist criticism.

The IPA, CIS and AIPP all had relatively broad agendas and relatively sophisticated approaches of which I have tried to convey the flavour. During the 1980s several organisations with methods often far removed from the Atlas style also contributed to an increasingly dry debate in Australia. Some endure.

Other Australian Dry Organisations

Elaine Palmer and Nadia Weiner set up Centre 2000, based in Sydney, which for some years catered well for the interests of young people. It also provided a much-needed service by retailing the more important liberal books. Eventually Centre 2000 came unstuck after aligning itself with partisan political forces – the Joh for Canberra campaign. Jenny Lindsay re-established and expanded the book retailing enterprise.

Professor Mark Cooray of Macquarie University established Australians for Commonsense, Freedom and Responsibility to produce educational publications to preserve democratic capitalism, freedom, free enterprise, the rule of law and 'all that is best in Western civilisation'. It produced some useful publications but eventually ran out of resources.

The Centre of Policy Studies (CoPS) was established at Monash University under Professor Michael Porter with a Research Centre of Excellence Award of $460,000 annually. It published more detailed work than any of the private think tanks and it had the resources to gather data and run economic models. Initially it concentrated on budgetary reform. Its publication, *Spending and Taxing,* was a comprehensive review

[96] More than the $50 million that Cole felt could be saved because some ongoing expenditures were inevitable.

of fiscal management identifying significant savings. Although its command of resources was at the time the envy of people in the private sector, Porter had more influence after he left CoPS to form The Tasman Institute. This Melbourne-based institute shared Project Victoria with the IPA. Through the work of Dr Alan Moran, who later joined the IPA, it developed a considerable expertise in regulatory reform, environmental management and the privatisation of utilities.

Staff at the National Institute of Labour Studies (NILS) at Flinders University tended vehemently to deny any connection with the 'dry', 'economic rationalist' or 'new right' (a term in use during the late 1980s) circle.[97] It was however highly regarded within the circle and the advice of its publications and staff was sought.

The Australian Congress of Cultural Freedom (ACCF) and its magazine *Quadrant* were conservative in a Burkean sense, seeking to preserve those habits that had with experience proved beneficial. It had been formed to combat the popularity of communism in the post-war years; a struggle it had conducted courageously and effectively. Dries were to quarrel with *Quadrant* on economic issues, especially trade, during the period of Robert Manne's editorship but at other times and since Padraic McGuinness assumed the editorship Dries found themselves in broad agreement with *Quadrant* and the ACCF.

The H. R. Nicholls Society (HRN) (named after a former editor of *The Hobart Mercury* who was charged with contempt of court but acquitted for describing the Arbitration Commission in terms that most Dries regard as apt) concentrated on publicising shock-and-horror stories from the labour markets. These are plentiful and HRN was able to make singularly effective use of very modest resources.

Run by Ray Evans, it was launched in Melbourne with as much fanfare as its organisers could muster but at the time it gained but modest media attention despite the attendance of Sir John Kerr, the Governor General who had sacked Prime Minister Whitlam and the presiding judge who had gaoled the union official Clarry O'Shea for refusing to pay fines. Charles Copeman, the chairman of Peko Wallsend about to enter a prolonged, bitter and successful dispute with its unions at Robe River, also attended, but there was no mention of the coming action. He listened and gained confidence from the papers presented and the views of fellow travellers.

Six months later when the Labor Party was suffering a bout of internal division, Mick Young, presumably to foster party morale, launched an attack on the 'clandestine' HRN. He accused it of masterminding the dispute at Robe River and describing its adherents as 'the new right' of whom all right-minded Labor people should beware. Bob Hawke described the organisation as one comprised of economic lunatics and troglodytes. They effectively launched HRN; for years it could exploit the notoriety it then received until gradually it was accepted even by Labor Party people as an organisation whose invitations to attend and address seminars they ought to accept.

Young's attack had been reasonably good-natured. Not so the disapproval of Brian Powell, the then chief executive of the Victorian Chamber of Manufactures, who

[97] *The National Times*, 13-19 September 1985

accused the 'New Right' of being 'classic fascists'.[98] Dries turned this too to advantage. They milked the opportunity to explain how much the Australian industrial relations system resembled the corporatist power-sharing of Government, business and unions that had been practised by Mussolini.

The Samuel Griffith Society was formed in 1992, principally by John and Nancy Stone, 'not only to contain the further expansion of power in Canberra but also to restore a balance between States and Commonwealth much more akin to that which the Australian people established in the 1890s'.[99] It holds periodic conferences on constitutional topics, among which native title has featured prominently, publishing the proceedings in book form.

The Galatians Group was formed by three clerics of the Uniting Church. St Paul had written a rather testy note to the churches of Galatia pointing out that their members would be judged individually for their faith and virtue. Galatians 3:28 reads, 'There is neither Jew nor Greek, there is neither bond nor free, there is neither male nor female: for ye are all one in Jesus Christ'. Later joined by clerics of other denominations, they addressed social issues in terms to influence the faithful.

New Zealand's biggest companies who provide its Board finance the New Zealand Business Roundtable (NZBR). Under the directorship of Roger Kerr, it has been among the most effective policy advocates in the world. It, like them all, stands or falls on the rigour of consistent argument and so far as an outsider can tell there has never been a successful attempt by the business interests to divert Kerr from New Zealand's national interest. The Roundtable's published arguments have been of such exceptional quality, consistency and caution that they have appreciably influenced debate in Australia. Organisations with structures similar to that of the NZBR that have preserved reputations for independence of the interests that control them are rare. Despite NZBR's success, which I believe has depended on Kerr and the Chairmen of its Board, not many Dries would recommend its structure.

Although the fact was generally not recognised in Western academic circles, from about 1975, socialism was collapsing under the weight of its own failures. Therefore, had the network stretching outward from the Mont Pelerin Society not existed, change from it in the socialist nations was eventually virtually inevitable. What, however, in the absence of the network's ideas would have replaced it?

In countries such as Australia, that had avoided full-blown socialism but which, nevertheless, had had an exaggerated view of what Governments could achieve, policy failure was evident. There was, however, no sense of crisis to drive change. Certainly, by 1975 collectivism had little political-philosophical support left but liberalism had not replaced it. Public policy had become a hunting ground where interests competed with each other for political favour, but hardly at all with any ideal. What did the Australian Liberal Party believe in? It claimed that it was anti-socialist, but who any more believed in socialism? What, after it ceased to believe in socialism, did Labor believe in? The IPA, CIS and AIPP stepped into an ideological vacuum where their opponents were most often not idealists but vested interests.

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[98] *The West Australian*, 3rd, 15th, and 21st September 1986
[99] Proceedings of the Second Conference of the Samuel Griffith Society, 1993, p v.

In the 1970s the framework of institutions that sustain a liberal, democratic, capitalist society featured but little in public debate and Governments that served narrow interests were not – at least until the WA Inc episode – thought of as corrupt. Journalists who aspire to professionalism, of whom there are enough to get messages to the public, would present alternative arguments but they had to be given them. They needed sources to quote and the dry think tanks provided these.

It is, as Lincoln observed, in the nature of democratic politics that without public sentiment nothing can succeed. During the 1980s the free market-market think tanks had high standing and influence. By 2000, however, the IPA and CIS had by no means lost the intellectual ground that they and others had won but people, most significantly those in authority, again did not want to hear.

Chapter 6
From Tariff Board to Productivity Commission

Protection is interwoven with almost every strand of Australia's democratic nationalism. It is a policy of power; it professes to be a policy of plenty.
WK Hancock, *Australia,* 1930

The Tariff Board became the Industries Assistance Commission in 1973, the Industry Commission in 1991 and the Productivity Commission in 1998. It developed and defended its own standards of objectivity and independence. Something of these struggles during the 1960s have been told with Bert Kelly's role in Chapter 3.

Richard Snape, Lisa Gropp and Tas Luttrell, writing in *Australian Trade Policy 1965-1997*, state:

> The contrast between trade and industry policy at the beginning and the end of the 30-year period is stark. The change is perhaps most marked with respect to manufacturing industry – away from policies that sought to insulate Australian industries from foreign competition and towards exposure to that competition. It was not that the turn was sudden – a national road to Damascus – nor has the new road been maintained fully consistently. There were at times steps both forward and back, and in recent times (1997) there appears to be some reversion to earlier attitudes to policy and policy formation. But looking back from the 1990s to the 1950s and early 1960s, it is clear that there have been marked changes in attitudes towards industry policy across many sections of Australian society, together with a marked shift in policy.[100]

The progress of dry trade and industry policy to which they refer was influenced by the basic ideal of even-handedness, by economic theory and increasingly by authoritative information. The Tariff Board and its successors contributed to understanding of the theory and were by far the most important sources of relevant information.

Mercantilism

We all trade almost every day but even so the gains made from trading internationally are counter-intuitive to many. The attitudes toward which Snape, Gropp and Luttrell saw us reverting have long born the label 'mercantilism'.

> Adam Smith coined the term 'mercantile system' to describe the system that sought to enrich a country by restraining imports and encouraging exports. The goal of these policies was, supposedly, to achieve 'favourable' balance of trade that would bring gold and silver into the country.
>
> Most of the mercantilist policies were the outgrowth of the relationship between the Governments of the nation-states and their mercantile classes. In exchange for paying levies and taxes to support the armies of the nation states, the mercantile

[100] Snape, Gropp and Luttrell, *Australian Trade Policy 1965-1997*, Allen & Unwin, 1998, p 1

> classes induced Governments to enact policies that protected their business interests against foreign competition.
>
> These policies took many forms. Domestically, Governments would provide capital to new industries, exempt new industries from guild rules and taxes, establish monopolies over local and colonial markets, and grant titles and pensions to successful producers. In trade policy, the Government gave preference to local industry by imposing tariffs, quotas and prohibitions on imports that competed with the local manufacturer. Governments also prohibited the export of tools and capital equipment and the emigration of skilled labour that would allow foreign producers to compete in the production of manufactured goods.
>
> Smith demonstrated that trade, when freely initiated, benefits both parties. He argued that specialisation in production allows economies of scale [and the learning of better techniques and skills] that improve efficiency and growth. He argued that the collusive arrangement between Government and industry was harmful to the general population.
>
> Modern mercantilist practices arise from the same source as the mercantilist policies of the sixteenth to eighteenth centuries. Groups with political power use that power to secure Government intervention to protect their interests while claiming to benefit the nation as a whole.[101]

Nationalism, not religion, is the opiate of today's people. Mercantilists, including the new anti-globalisation lobbies, tend not to see trade as mutually beneficial but as a zero sum relationship with one person's gain being the other's loss. In particular they overlook that trade restrictions harm the advancement of the poor in developing nations.

Before 1965

In Australia Walter Massy-Greene was Minister for Trade and Customs in the Hughes Nationalist Government. The Massy-Greene tariff of 1920 was arguably the beginning of 'protection all round,' the idea that every Australian industry should be protected from foreign competition. The inherent unfeasibility of such a policy seemed not to have occurred to Massy-Greene or many of his successors. Nevertheless, following its introduction, the Government established the Tariff Board to evaluate the need for industry protection and to inform both the Government and public.

Shaun Kenaelly offers this vignette:

> The tariff broke Massy-Greene's political career, although he continued in the Senate until the late 1930s. Massy-Greene, architect of the great tariff increase and Minister responsible for the foundation of the Board, went up, many years later, against his own creation, with interesting results. Defeated in politics, he went into business and soon established a string of successful directorships, principally in manufacturing, working out of Collins House, in Melbourne. He became Chairman of Australian Pulp and Paper Mills. When the Company made its first application for a protective tariff, Massy-Greene decided that it was so important that he should introduce the submission in person.

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[101] Laura LaHaye, *Fortune Encyclopedia of Economics*, Warner Books, 1993, p 534

> Once in the witness box, Massy-Greene began to hector the Board, by launching into a full-scale disquisition on the place of the exchange rate in the protective structure. He was interrupted by the Chairman, Hugh McConaghy, who told him to stick to the point. Massy-Greene simply ignored him. McConaghy was a career public servant of many years standing. He chaired the Tariff Board from 1927-1942. McConaghy tried to stop him again, more sharply:
>
> Sir Walter, thereupon, to the delight of the reporters and indeed everyone present, including his own colleagues from the paper company, did his block. He asked the Chairman whether he (McConaghy) recognised that, as Minister for Trade and Customs, he (Sir Walter) had created the Tariff Board, and further whether he (McConaghy) realised that he (Sir Walter) had become more and more dissatisfied with its performance ever since. Had he realised, asked Sir Walter, that it had never been intended that the Tariff Board should adjudicate upon new or altered tariffs – which were the sole prerogative of the Minister – and that the Board's only function was to inquire into the effect and incidence of decisions which the Minister had made. By this time McConaghy's Irish blood was properly up and he firmly ordered Sir Walter to step down from the witness box.

The story tells much about attitudes to tariff-making, the function of the Board, the direct and indirect political pressures operating upon it and of the integrity of the Board when attempts were made to bully it. Sometimes the bully was the Minister and from the outset the Tariff Board was subject to an uncertain existence. Kenaelly observes wryly, however, that more than once the politicians overlooked the quality of their own appointments.

Legislation required the Tariff Board to conduct public inquiries at the request of the Government into 'assistance' to particular industries and authorised it to conduct its own inquiries into tariff assistance without prior reference by the Government. The Government could not alter existing duties or introduce new ones, without first obtaining a report from the Board but it could ignore or otherwise depart from the Board's report. Since the Board's recommendations were a public document, it was then up to the electors. The procedure accorded well with democratic principles. Wherever complex detail and/or arcane theory are called for, democracy can function only as well as the trusted and authoritative advice that is available, but it also must be sought. The Tariff Board and its successors produced impartial information and related it to goals that most people shared – rising living standards, employment opportunities and justice. It earned trust by declining to overstate its case and by declining to allow itself to be bullied. It became an effective advocate that infuriated those wishing to escape competition.

This was, however, a gradual development. The 1929 Brigden Report had been highly critical of the *ad hoc* way that Governments set tariffs. Then, when the 1932 Ottawa Conference made it a condition of the Imperial Preference[102] that Australia adopted a more orderly approach to tariff-making, the Board's hand was strengthened.

The saga from Tariff Board to Productivity Commission is far from a tale of straightforward progress. Indeed at several points the Board and its successors lost

[102] The Preference gave Commonwealth nations preferred access to the British market

ground, but succeeding Members and then Commissioners gained more influence with more people upon more issues. Like the think tanks, they had no power but only influence on opinion leaders and through them with voters, and only as much influence as their opinions commanded respect. Giblin, a leading academic economist and moderate protectionist said this of the Tariff Board in his 1936 Joseph Fisher Lecture:

> The Board offers a remarkable instance of the delegation (in effect) of a highly specialised job to experts, with very satisfactory results. In this business of tariff protection in the interests of the community as a whole, there were in fact no experts ready-made. The members of the board had to learn their job by doing it. Naturally enough, the board's earliest efforts were crude, and its authority slight. It applied itself, however, diligently and intelligently to its work, studied, gained experience, broadened its outlook, built up a technique, and as a result has become very competent. The consequence has been that it has to a large extent gained the confidence of all the interests concerned, and established its authority.[103]

Like many with collectivist tendencies then and since, Giblin had not thought through the politics of what he proposed. Wanting the expert Board to determine protection levels free from the influence of Governments, he had given too little consideration to the political consequences of an unelected body dispensing and denying privileges. He appreciated that Ministers of the Crown were corruptible but was reluctant to admit that there was no way of escaping the dilemmas created by any decision to favour one class of citizen at the expense of others. So long as there was to be economic favouritism then the best that the public could expect was that the ruling authority was an elected and therefore readily sackable one, and that the advice it received was public, comprehensive and authoritative. Unlike the Arbitration Commission, with its decision-making powers, all that had been delegated to the Board was the responsibility to advise publicly and that was as it should be.

Until the 1980s it was widely believed, in part because the Brigden Report had said so, that manufacturing protection created employment, enabling Australia to support a larger population than otherwise. The 1932 Ottawa Agreement (from which derived the United Kingdom-Australia Trade Agreement) had, however, declared that 'protective barriers shall not exceed such a level as will give United Kingdom producers full opportunities of reasonable competition on the basis of relative costs of economic and efficient production'. Protection was, therefore, to be afforded only to industries that were 'economic and efficient'. Why an economic and efficient industry should require protecting was not addressed. The tenor of the language was mostly mercantilist – as though Adam Smith had never published and Britain had never experienced the debates that led to the repeal of the Corn Laws.

After World War II, when many nations increased their access to world markets, Australia remained inward-looking and lost world-market share. The cost of protecting a growing manufacturing sector, 60% of which could not without protection have competed even in the home market, was borne by primary industry with access to cheap land and minerals. In the 1960s we were still the lucky country

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[103] L.F. Giblin: *Some Economic Effects of the Australian Tariff*, The Joseph Fisher Lecture in Commerce, 1936. (Adelaide, 1936), pp.23-24 quoted by me from Sean Kenelly unpublished.

but the traditional source of luck was running out as agriculture and many mines faced what we termed the 'cost-price squeeze'. With the raw materials shortages of the 1970s cheaply exploitable minerals replaced agriculture but that sector was dependent on international markets and domestic costs. It was a precarious source of luck in a high-cost economy.[104]

In 1965, the Vernon Committee addressed the 'cost disadvantage' of Australian industry, which it thought to be around 30%. It concluded, however, that free trade (with accompanying devaluation and exporters producing a larger share of national income) 'would not in practice have produced an economy operating at levels of employment and production comparable with those which have prevailed'.[105] It recommended systematic examination of protection on an industry-wide basis.[106] Debate still tended to be mercantilist. Although dismissed by Menzies, it was influential.[107] A practice begun in the following year by Alf Rattigan, then the Chairman of Tariff Board, was in time much more influential. He began using the Board's statutory requirement to report annually to explain with ever-greater sophistication the national consequences of protection in terms that would not have been familiar to Adam Smith but of which he would surely have appreciated.

The Rattigan Appointment

When Jack McEwen appointed Rattigan in 1962 he misjudged his man. Rattigan was not at the time of his appointment an avowed free trader. He was, however, a principled civil servant who took his statutory duties seriously and, if he did not have the skill already, he quickly learned to recognise disingenuous special pleading. He was not a man who could be bluffed into fudging his duties. And, of course, he knew of Sir Leslie Melville's experience. As was so often to be the case in winning as much of the Good Fight as has been won, Rattigan's essential strength was not technical but moral! He was also politically astute, recognising and seizing the opportunities that permitted Whitlam to form the Industries Assistance Commission. He understood the necessity of attracting first-class staff to the Commission and training it in world-class analysis.

The Tariff Board under Rattigan's chairmanship tried to give economic content to the words 'economic and efficient', to introduce the concept of 'effective rates' of protection (see below) to its analysis, to have protected industries reviewed every six years and to assess protection by its effects on the economy as a whole. Needless to say the recipients of protection and their industry bodies were not delighted. Neither was the Rt. Hon. Jack McEwen.

The Three Pillars

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[104] Tariff Board Commissioner, Dick Boyer, address to the Economic Society of Australia and New Zealand, May 7, 1969.
[105] Snape, Gropp and Luttrell, *Australian Trade Policy 1965-1997*, Allen & Unwin, 1998, p 34
[106] ibid, p 23
[107] ibid, p. 1

The way the Tariff Board viewed itself differed little from the view that the Productivity Commission has of itself today. In 1998 Garry Banks, the Chairman of the Productivity Commission, spoke of 'three pillars'[108]:

Independence:

> The Commission operates under the protection and guidelines of its own legislation. It has an arm's length relationship with Government, which can tell it what to do – through inquiry references and requests for research – but not what to say. In a fundamental sense, the Commission reports not merely to the Government of the day, but to Parliament and ultimately to the Australian Community.
>
> The corollary to this is that the Commission is only an advisory body – and only one source of advice at that. Its influence depends on the power of its arguments and the efficacy of its public processes. It makes recommendations to Commonwealth and State Governments, but they are at liberty to accept or reject them.
>
> The Commission's independence is exercised formally through the Commissioners – who as statutory appointees cannot easily be removed.

Transparency

> The Commission's advice, and the information it generates, is all open to public scrutiny. Its inquiries provide for extensive public input and interaction through hearings and other consultative forums, and the release of draft reports. This allows anyone with an interest to have a say, to respond to the views of others, and to comment on the Commission's own preliminary views before it submits its report to Government.

A broad view

> The policy guidelines in its legislation require the Commission to have regard to the need to 'improve the overall economic performance of the economy….to achieve higher standards of living for all members of the Australian community'.
>
> The Commission is also required to have regard to a range of more specific considerations, including the facilitation of adjustment to change, the need to promote employment and regional development, and the social and environmental implications of its recommendations.
>
> While there are potential tensions among some of its statutory guidelines, they collectively ensure that the Commission cannot put the interests of any group above those of the Australian community as a whole.

Should any one of Banks' 'pillars' be seriously compromised, then the influence of the Commission would be compromised and an effective barrier to grace-and-favour Government would fall.

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[108] Garry Banks, Chairman of the Productivity Commission, Address to CEDA, 26th Aug 1998

In the same address Banks worried that his Commission was seen to be ideologically driven with an antipathy to all forms of Government intervention. To illustrate that it has no such antipathy he chose examples that implied that it was not even particularly dry, citing its recommendation for 150% tax deduction for business R&D and rejection of unilateral open-skies deregulation of international air services. He was in this, I think, a mite disingenuous. While the Commission recommends Government intervention as often as it does not, it is rare for it to recommend interventions that favour one form of economic activity – research or operating aircraft – at the expense of others. Those were poor examples.

Economic theory instructs the Commission that, within a framework preserving property rights, the best available approximations of competition will most often best supply the goods and services that people most want. However, theory also instructs it about the circumstances where competition is imperfect – monopoly, externality, want of information and where tradeable property rights cannot be established such as with deep-sea fish stocks – and in the forms of Government intervention that will best countervail or avoid the imperfection.

The logic that governs the Commission does not compel it to oppose Government interventions but it does compel it to oppose those interventions that create privileges and to advocate those interventions that decrease privileges, such as the rules preventing people from polluting air, water etc. No Government would admit to any other intention. The enmity that the Commission attracts is that of people who do not wish to have their privileges publicised and who do not trust markets.

Despite the fact that the Productivity Commission and it predecessors have worldwide standing, justly-earned over three-quarters of a century, most of the information that they have given Governments, the Governments could have learned from other sources or in the most important cases already knew very well. It is not the advice that the Commission gives Governments but the advice it gives the public about Governments that has caused us to be better governed. Had Tariff Board, IAC, IC and PC reports not been on the public record they would have amounted to little. They changed the political climate and made it more rewarding for political entrepreneurs to follow the free-trade line. Chairman Banks' principal function was thus not to prevent Governments falling into error but into sin.

Measuring Protection

The immediate purpose of any protection is to allow goods to be sold at higher prices, and thus protection has for the consumer the same price effect as a selective consumption tax. For instance, in the late 1980s the consumer tax equivalent of protecting motor vehicles alone was $1.3 billion each year. Most of this was, however, paid not to the Government but to the motor manufacturers. Until the Tariff Board and its successors publicised these costs, very few people outside the industry and the Government appreciated even their order of magnitude.

While consumer tax equivalents measure the costs to consumers of protecting producers, the best measure of the competitiveness of a particular activity is its 'effective rate of protection'. Snape, Gropp and Luttrell offer the following explanation:

> … if the tariff on a production input (say 20%) exceeds the tariff on the user industry's output (say 10%) the effective rate of protection to the latter activity will be *less* than the 'nominal' 10% rate on the output (the precise effective rate will depend on the importance of the input in the production process). Industries whose outputs are not protected (such as mining) can thus receive negative effective protection (in other words they are 'taxed') because they are penalised by tariffs and other forms of protection, which raise their input prices, but they are unable to raise their output prices, which are determined by world markets. On the other hand, the effective rate of protection for some industries can exceed the nominal rate on their outputs because their inputs are protected at a lower rate: some clothing and footwear activities, and even motor vehicles, have received effective assistance well in excess of 100%.[109]

Because producers supply each other's inputs and compete for resources and customers, every economic activity affects every other. Initially the higher price or reduced quality that protection allows is borne by the immediate purchasers but, to the extent that these face competitors that are similarly affected, the immediate purchasers too can raise their prices or wages. Thus the cost of protecting one industry is passed on until it reaches somebody who cannot raise prices, such as a person on a fixed income or an exporter.

Employing the concept of the effective rate of protection, the Tariff Board through to the Productivity Commission estimated the protection afforded by tariffs, subsidies and quantitative import restrictions and the consequences of these for other industries. It ranked industries in terms of their burden on the community. It was thus made apparent which industries unambiguously contributed to the Australian economy and which, with profit to the whole nation, might have had their marginal resources better employed elsewhere. Major parts of motor manufacture and textiles, clothing and footwear manufacture were so economically inefficient that the nation could with profit have paid their entire workforces to stay at home. Other industries, most notably in the mining sector, were shown to receive what economists call 'negative protection', in effect an underhand tax.

When the losers were identified the information cast doubt upon the long-held belief that protection resulted in net employment gains. One man's protection was, it became apparent, another man's job. Had not a significant minority of the public come to appreciate this fact, it is unlikely that the protection reductions achieved in the Hawke years would have been politically feasible.

The effect of protecting any industry upon other industries was contested vehemently. The effect always applies but it is most obvious when the chain is shortest. It is easier to convince people that the protection of rolled steel affects the production of lawn mowers than to convince them that the protection of bed sheets inhibits the production of coal. Perhaps because it knew this, the Fraser Government at one stage tried to avoid an IAC inquiry into fabricated metal products. When it was conducted, submissions pointed to the high price of rolled steel even though it was protected only moderately. There is said to be honour among thieves but the highly-protected motor

[109] Snape, Gropp and Luttrell, *Australian Trade Policy 1965-1997*, Allen & Unwin, 1998, p. 8

industry submitted that cold-rolled steel should not receive higher protection than it already had.

The Industries Assistance Commission employed the general equilibrium (whole-of-the-economy) ORANI model to demonstrate the negative and positive effects of protection upon sectors and the negative effect upon over-all economic growth. The estimates of opportunity foregone were, however, under-estimates because economic models are unable to capture the effect of competition upon the quality of management, deficient innovation and workforce practices. Faced with losing one's market or one's job one does tend to lift one's game, much as a drought year once improved my farm management more radically than had a decade of good seasons. The progress of the Australian economy since tariff reduction provides strong circumstantial evidence that these so-called 'x' inefficiencies were substantial.

The Argument as it was by 1970

During the 1960s a battle had raged between, on one side, the heavily-protected industries and their representatives, the Trade Ministry and its Ministers McEwen and Doug Anthony and, on the other, the Tariff Board, most of the financial press, Treasury, most academic economists and Bert Kelly. Most people then accepted industry protection as a fact of life. 'Free' as opposed to 'freer' trade was mentioned only by protectionists to discredit their opponents. The principle most at issue had not been protection itself but transparency. However, both sides assumed that transparency would result in freer trade.

By the time that Whitlam was elected in 1972, the tariff argument had become fairly predictable. The Board was accused of usurping the Government's role in tariff-making, an argument that was, of course, in any legal sense, nonsense. If protection of anything were reduced or not increased as requested jobs would be lost. This was usually true of particular jobs but no mention was made of the jobs protected by cheaper or better products. Industry associations asserted that they did not accept the 'effective rate' concept but the theoretical basis of their objection was not explained. The Tariff Board was alleged to be dominated by wild-eyed theoreticians, etc.

Defence of protection was characterised by rancour and political threat. Much of it was targeted at the Tariff Board and then the IAC; and individual politicians received their measure. Looking back, however, its most striking feature was its lack of integrity. Industry spokesmen cannot even then have believed what they were saying. McEwen, with what seemed like scant regard for his own self-respect, told the Parliament that he had not appointed people of the highest economic eminence to the Tariff Board. It should therefore not attempt to place tariff-setting in a whole-economy setting or to classify industries as enjoying high, medium and low levels of protection, he said. Even if this had been true, the criticism would have been beside the point because the nation's (and the world's) best economists, such as Dr. Max Corden, approved of the techniques by which the Board was proceeding. McEwen did not tell the Parliament, perhaps because he realised it only too late, that he had, however, appointed a Tariff Board Chairman, Rattigan, of the highest integrity. When, following Rattigan's death in 2000, Alan Mitchell, the editor of *The Australian*

Financial Review, described Rattigan as 'one of Australia's most remarkable public servants' he did not exaggerate.[110]

Temporary assistance[111]

As we have already seen in Chapter 3, Commonwealth Governments enacted various arrangements for the granting of temporary or injunctive protection. Initially, the Deputy Chairman of the Tariff Board, who tended to apply Tariff Board criteria, had been responsible for recommending temporary assistance. In 1962, however, the Government created the Special Advisory Authority (SAA) to do it. Protection was available immediately but the case for it had to face a Tariff Board inquiry within three months. The SAA proved more inclined to accept industry arguments than the Tariff Board had been and there was no restriction upon how soon after a Tariff Board report that further 'temporary assistance' could be granted. These circumstances resulted in farcical protection 'merry-go-rounds'. Manufacturers and processors of polyester yarns received 'temporary' protection for more than eight of the fourteen years between 1962 and 1976 and raw polyester yarns received 'temporary' protection for six years between 1967 and 1976.

In the report that led to the creation of the Industries Assistance Commission, Sir John Crawford had recommended that evaluation of the need for temporary assistance should be returned to the Commission. The Whitlam Government tried to legislate accordingly but its Bill was amended in the Senate by the Coalition Parties to extend the period for which for which temporary assistance could be granted to two years. The SAA became the Temporary Assistance Authority (TAA). Not having the numbers in the Senate, the Government accepted the amendments. In 1974 and 1975, in a climate of rising unemployment and declining electoral standing, the Whitlam Government itself, after its 25% general tariff cut, turned to temporary assistance measures to assist, in particular, textiles, clothing and footwear, motor vehicles, steel and household appliances.

In 1978 the Fraser Government enacted law to let it make greater use of the TAA for protective measures of not longer than two years duration. In 1983 it extended the two years to three.

Following the 1984 Uhrig Report, an ALP Government abolished the TAA, bringing temporary assistance within the purview of the Commission alone. With a falling Australian dollar and faced with scrutiny, requests for temporary assistance simply dried up. A huge and long-standing rort – preferment on demand – ended with barely a whimper.

The 25% tariff cut

Faced with the necessity of doing something to reduce inflationary pressure quickly at a time when the exchange rate was determined by Government fiat, Whitlam opted for an across-the-board tariff cut of 25% instead of a further up-valuation of the Australian dollar. The decision, like much that Whitlam did, was radical. However, it made long-run economic sense to require those industries that contributed least to the

[110] Alan Mitchell, *Australian Financial Review*, 17 March 2000

[111] Snape, Gropp and Luttrell, *Australian Trade Policy 1965-1997*, Allen & Unwin, 1998, Chapter 3

standard of living to release resources to those that contributed most. It was radical not just for the size and direction of the change and the fact that it affected all tariff-protected industries but also because it was done primarily for macro-economic reasons and that Treasury, whose nose was put seriously out of joint, was not involved. Because the cut could not have been anticipated, it in inflicted unnecessarily high adjustment costs.

The situation was ripe for misrepresentation that was well beyond the Government's ability (even if it had been united on the point) or the Tariff Board's ability to counter. The effect of the usual industry lies and threats upon those whom Whitlam described as 'Nervous Nellies' was to see the gains substantially undone. These lies and threats lacked nothing in encouragement from the Opposition. The Country Party opposed the 25% tariff cut despite its constituency, that is exporting farmers, gaining the biggest single benefit that it had ever received, dwarfing concessions such as the superphosphate bounty.

Representatives of the textile industry in particular did not then abide by any equivalent of Queensbury's rules and Whitlam's Cabinet was not of either the intellectual quality or resilience of Hawke's. Coming under pressure from a relentless campaign from manufacturers to reverse the 1973 tariff cut,[112] the divided Government introduced non-tariff barriers for several industries. These included measures for passenger motor vehicles, textiles, clothing and footwear that lasted for 13 years.[113] These considerably (perhaps wholly) undid the 25% cut in the average level of assistance and more seriously, by increasing protection for the least efficient industries, increased protections' distortive impact. Industries making claims upon the same or readily substitutable resources now received even more widely differing levels of Government preferment. The diversion of resources away from their most economic use was even greater and the economic cost even higher.

The IAC began to stress the economic cost of dispersion and the case for 'tops-down' tariff reduction. The highly protected industries are, unfortunately but no doubt as one might expect, those with most political muscle and the Commission was never entirely to win this one.

Tariff Board to IAC

Against the background of the chicanery of the 1960s, Kelly's exposure of it and Melville's and Rattigan's stands on principle, the Whitlam Government commissioned Sir John Crawford to report on a Commission to make 'a special contribution towards improving the allocation of resources'.[114] Crawford recommended revamping the Tariff Board to form the Industries Assistance Commission, widening the brief from manufacturing industries to include agricultural industries and the traded tertiary industries.

The wealthier producers and the marketing co-operatives had been the principal influences upon politically inspired regulation of and assistance to the rural industries.

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[112] Snape, Gropp and Luttrell, *Australian Trade Policy 1965-1997*, Allen & Unwin, 1998, p. 25

[113] ibid, p. 121

[114] The Crawford Report

Assistance, therefore, concentrated on the commodities rather than the people and often resulted in ridiculous waste. In the mid-1970s Tasmanian apple orchardists received average annual subsidies of between $10,000 and $11,000, but by selling into loss markets overseas their net returns were reduced to less than $3,000 each.[115] Perhaps just as unwisely, shipping cartels were permitted to handle nearly all of the carriage of meat, wool and dairy produce at a cost then of about 16% of their export value.[116] The case for open inquiry into the rural sector ought to have been unassailable.

The Liberals supported Whitlam – a singular triumph for Bert Kelly. The Country Party, however, bitterly opposed the IAC Bill. Doug Anthony, I am sure without blushing, had this to say to the parliament:

> What this legislation means, of course, is the end of the long-established and successful system under which industry policy was devised – the system of discussion, consultation and negotiation between industry and Government.

I wonder how he would have reacted to a statement that was in every respect the same except that in both places 'union' was substituted for 'industry'. I suspect that he did not approve two decades later when the ACTU entered discussion, consultation and negotiation with the Hawke Government to devise industrial relations policy.

The Government also promised a deliberate, systematic, comprehensive and long-term program of inquiries. Ministerial responsibility was shifted from Trade to Prime Minister – that is, away from the Jack McEwens, Doug Anthonys, Jim Cairns and their ilk to a minister who had to take a whole-of-Government approach.

In 1972 Labor had come to power after 23 years in Opposition. Believing too much of the rhetoric it had used to gain office, it governed badly and could not last. When the Australian economy was hit by the oil shock the Government stuck to the program that had prevailed in the 1960s rather than addressing the supply-side problems. The Coalition, which was by 1975 led by Malcolm Fraser, came back to office too soon and was not fully purged of the bad habits acquired while too long in office.

When, during 1976, Fraser told Howard that the IAC must be instructed to take into consideration the consequences of its recommendations for employment. He no doubt expected IAC reports to show net employment losses. This instruction caused some anxiety among low protectionists in the Liberal Party who knew Fraser's predilections and feared another episode like the persecution of Sir Henry Melville. I, on the other hand, argued that it provided the Commission with an opportunity to debunk a widespread misapprehension. At least one of the permanent commissioners, Dick Boyer, worried that the necessarily wild estimates of employment opportunities created by tariff reduction would damage the organisation's rigour and ultimate credibility. I don't think he was impressed by my assertion that all the Commission had to do was to run the data through an economic model and hand the necessarily unreliable results to Fraser with all the appropriate qualifications and a lecture on the underlying theory.

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[115] Tariff Board Commissioner, Dick Boyer, address, 21 November 1974
[116] ibid, 12 February 1980

From this time forth the Commission was required to produce draft reports for public comment. I was concerned that when the vested interests applied pressure to it to change draft recommendations the Commission might buckle. I did not see what could be done about this without sounding dog-in-the-manger so I said nothing. I need not have worried, the procedure has functioned well.

The IAC, like the Tariff Board, having no executive function, had no clients to 'capture' it. Of course hindsight sometimes revealed error, but the IAC did not, like the Government, feel obliged to justify past mistakes. Every new inquiry looked again at the evidence. It was given the resources approximately to match the special pleading of protected industries. Combining rigour and flair it educated the public to an extent that the Tariff Board had not been able to. Armed with data from a disinterested and therefore credible source, advocates of the open economy could now mount far more convincing cases than those that had depended on theory alone. By quantifying protection the Commission had shown that its economic cost was sufficient to account for a considerable reduction in living standards from what they might have been. Influenced by this evidence of a cause of Australians' declining relative living standards, eventually, in the mid-1980s, a braver-than-usual Government was to do what every post-war Government knew that it ought to have done, namely, reduce protection.

Iron and Steel

The textile, clothing and footwear industries alone have been the subject of about 500 reports since 1921[117] and it is not possible to explain here the labyrinthine workings of Australian border protection as it was. That would require another account and another author. Tariffs; tariff quotas; other quantitative import restrictions; 'drawback' of taxes upon imports later exported; by-law entries, later called commercial tariff concessions; subsidies; voluntary restraints; export facilitations; export market development grants; export payments insurance; offsets; local content requirements; home price schemes for agricultural produce; import restrictions in the names of quarantine or domestic standards; extended patents; tax concessions; and State and Commonwealth Government purchasing preferences produce mind-boggling complexity. They also offer eminently corruptible processes to politicians and mendicants alike.

The production of iron and steel was not by far the most highly protected industrial process, nor was the steel industry the most active in threatening political reprisal or in making donations to political campaign funds. Chosen for its relative simplicity, it will, however, serve to illustrate the most common tendencies.

Australia has abundant iron ore and coal of exceptional quality close to sea transport and should be suited to iron and steel production for world markets. Instead, prejudiced by the protection of other industries, especially coastal shipping, it developed to supply the domestic market, exporting only when domestic demand fell below expectation. When worldwide iron and steel capacity increased the Australian industry came under pressure in the domestic market especially during the recessions of 1974-75 and 1982.

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[117] Snape, Gropp and Luttrell, *Australian Trade Policy 1965-1997*, Allen & Unwin, 1998, p. 125

In 1974 the average effective rate of protection of basic steel products was only 15%, about half that of the manufacturing sector as a whole. Following a Temporary Assistance Authority hearing, import quotas for sheets and plate were imposed in 1975. A year later, these were removed following an IAC report. Tariff quotas were imposed three months after that following another TAA report and some of those were removed later that same year. The industry received further protection in a variety of forms until 1983 and lagged far behind overseas competitors in modernisation. BHP made woeful rates of return on the capital used in its Steel Division.

In 1983 a tripartite – Federal Government, BHP and the unions – steel plan was devised. It provided for investment by the company, wage agreements and taxpayer-funded subsidies intended to provide the industry, essentially BHP, with 80% to 90% of the Australian market. The plan was terminated, as intended, in 1988.[118] It had delayed the inevitable closure of the out-of-date Newcastle steelworks but, despite the plan, the industry has become gradually more competitive. Despite some improvement, it still suffers from uncompetitive coastal transport.

The argument as it became in the 1980s

Keeping an electoral commitment, the new Hawke Government commissioned John Uhrig to report on the operations of the IAC. Uhrig recommended that the Commission lose its ability to initiate an inquiry. Except as a threat, the Commission had never used this power but at the time I felt it was important that Governments were threatened by the possibility that their worst decisions might face public evaluation. On the positive side, the Commission's charter was expanded to include tertiary industry specifically and, as we have already seen, temporary assistance was returned to it, an important step toward public accountability. The inclusion of tertiary industry expanded the Commission's brief enormously; it was another step in the evolving appreciation that barriers to internal as well as border trade needed to be removed.

By the mid-1980s the debate had moved from whether Australians should reduce protection to how they should do it. Manufacturers who had been prone to ask plaintively how they could compete with the low wages of Third-World countries had been forced to concede that they were competing because, with machinery and education, their workforce was immensely more productive than that of poor nations. More people now appreciated that if Australia did not import it could not export. Some businessmen could explain the principle of 'comparative advantage', always an elusive concept, to anyone who asked. Those who could not at least knew that it implied concentrating upon what was done best. More people understood that one man's protection is another man's job. Nearly everybody realised that trade barriers reduced living standards below what they might be. More people accepted that this reduction was not trivial. It was not just old soldiers who disliked having to concede that Japan had won the peace and now had living standards to match our own. The disingenuous nonsense of, for instance, the textile lobby was no longer passing unchallenged.

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[118] Snape, Gropp and Luttrell, *Australian Trade Policy 1965-1997*, Allen & Unwin, 1998, p. 124

In contrast, in 1987, when Australia was reducing tariffs, some American lobbies had seemed as Hell-bent on blocking imports as they had been in 1930 when the United States Congress responded to Japanese imports with the infamous Smoot-Hawley tariff. In April 1987 the US House of Representatives had carried HR3, intended to compel the President to erect protectionist barriers against countries with 'excessive' trade surpluses with the US – unadulterated mercantilism!

Australia had not reduced manufacturing tariffs in successive GATT rounds or unilaterally when others had done so in the 1950s and 1960s. In the early 1980s we had one of the most highly protected manufacturing sectors in the developed world. Our trade patterns and interests, however, resembled those of our colonial past or many developing nations of the time.[119] Despite this background, in 1986 Australia's was a well-informed voice at the Uruguay Round of the GATT. At this we initially eschewed mercantilist negotiations of the sort that says, 'We will reduce our trade barriers if you reduce your trade barriers.' Instead, our negotiators accepted that we benefited from imports. It is not conceivable that without the IAC's years of painstaking public explanation an Australian Government would have, even could have, however temporarily,[120] abandoned mercantilism. We were to reduce our own trade barriers in our own interest and benefit again to the extent that others reduced their barriers.

Although many fired the bullets in the war of words that brought about this change, more bullets had been manufactured at the IAC than anywhere else. It had provided the data and much of the argument for the speeches and the op-ed pieces. The time had come when these reasoned efforts at last prevailed over the thirty-second television grabs of closed factory gates. It had, however, never seemed axiomatic that the day would ever come. How can one present in camera-friendly form the jobs that less costly motor cars make possible; the better health of a family that need spend less on clothing; the fact that one day we would weather an 'Asian crisis'; or that in the unknown future we might be strong enough to repel armed invasion? Like the dispersed interest that is hard to organise, the dispersed benefit is hard to demonstrate and impossible to capture on film.

Mercantilism, however, dies hard. After its brief eclipse in the late 1980s, it returned to Government rhetoric. Even while our own trade barriers were coming down the Government again began defending its policies in mercantilist terms. For instance, Trade Minister Dr Blewett writing in the trade magazine *World Link*, employed mercantilist arguments to attack European Agriculture Protection. He wrote of the advantages to Europe of trade in intellectual property, services and industrial produce, should Europe have agreed to the quid pro quo of freer agricultural trade but omitted to mention the advantage to Europeans of access to our cheaper food. He wrote of the 'substantial sacrifices' that would be made by the Cairns Group (of agricultural nations) if the Uruguay Round were successful as though access to competitively priced cars was not an advantage to Australians. In the same publication his silliness

[119] Kym Anderson and Ross Garnaut, *Australian Protectionism: Extent Causes and Effects*, Allen and Unwin, 1987.
[120] There were still in 2000 elements of the Department of Foreign Affairs and Trade who seemed to believe in one way trade.

was, however, more than matched by Raymond MacSharry, European Community Agricultural and Rural Development Commissioner and farmer from County Sligo, Ireland.

The Industry Commission

In 1991 the Industries Assistance Commission absorbed the Business Regulation Review Unit and the Interstate Commission to be renamed simply the Industry Commission. With border protection increasingly attended to, attention was turning to the barriers to internal exchange. The Commission was moved from Canberra to Melbourne to bring it more in contact with the 'real world'. Some good staff were lost by the shift but the remainder seem to have been able to remain uncorrupted by their exposure to it.

In 1986 the Business Regulation Review Unit had estimated that the total cost of regulation was between 15% and 30% of Australia's GDP. This huge cost was, of course, not all dead weight. It was partly offset by justifiable or outrageous 'transfers' to deserving or undeserving beneficiaries. I estimated from data in a CIS publication that about 28% of the total costs were dead weight – that is, 4% to 8% of GDP. My assumptions were heroic but no changes to them would change the conclusion that wasteful regulations were a considerable economic incubus. Many of these were now to be addressed by the IC.

The Productivity Commission

In 1998 the Howard Government formed the Productivity Commission to replace the Industry Commission, Bureau of Industry Economics and the Economic Planning Advisory Commission. In the intellectual climate of other times this change might have been interpreted as a step in the direction of the Vernon Report's National Economic Advisory Council, rejected so firmly by Menzies. It was not so interpreted because the cherished principle of economic neutrality had become so firmly associated with the Tariff Board's successors that it was accepted that it would be maintained, even against instruction from a poor Minister, should it suffer one.

In 2001 Labor and the Democrats promised to abolish the Productivity Commission replacing it with a National Development Authority. If the term 'authority' means anything, then a huge step towards Vernon-type planning, towards corporatism, is intended. It may not do so. Incoming Governments are fortunately talked out of some of the less responsible ideas that they have had in Opposition. What is more, to scrap the Productivity Commission would be to reverse one of Gough Whitlam's lasting and greatest achievements, not to mention those of that lesser icon, Paul Keating. The changes that a Labor Government makes will probably be largely cosmetic.

Howard was right to widen the Commission's brief to include scrutiny of the favours allotted to producers of non-traded goods and services such as the waterfront, legal services, welfare services and health insurance. Following the Hawke Governments' considerable progress in removing the Government-imposed inequities from international trade, barriers to domestic trade in, for instance, transport, legal and medical services are now of greater economic significance and cause greater injustices than tariffs. It does not follow that the barriers to domestic trade could have been addressed first or at the same time. It was only as barriers to international trade were lowered that Australians were forced to recognise the injustices and inefficiencies that

Parliament inflicted elsewhere in the economy. As each brick was removed from the tariff wall a little more light entered the room to reveal an economy clogged with the detritus of three-quarters of a century of *ad hoc* favouritism.

Influence

The influences of the Industries Assistance Commission, the Industry Commission and the Productivity Commission have extended beyond Australia. Australia was well equipped to lead the commodity-selling nations at the Uruguay Round of the General Agreement on Tariffs and Trade, now the World Trade Organisation (WTO). Noting that anti-protectionist leaders, such as Ronald Reagan, knew what should be done but could not convince their constituencies, trade theorists at the WTO commended the Australian Productivity Commission to other nations.

Barriers to international trade are subject to domestic politics. Tariffs and import quotas are imposed solely to allow producers to charge higher prices within their own country. If Governments are to cease protecting their most clamorous industries at the expense of their own consumers and other industries, then the consumers and people in the other industries must be told of the cost of protection that they bear. Since public choice theory tells us that concentrated producer interests have the advantage in the struggle for the attention of politicians, the dispersed losers require the assistance of an organisation that will publicise the facts.

The 1977 TCF Report had shown the cost of protecting the sector. Eighteen years later, Peter Walsh wrote that the Report drove into the Labor Party psyche the fact that protection at the same rate and on the same products had the same effect on income distribution as would a sales tax. Since textiles, clothing and footwear absorb a three times higher proportion of the expenditure of the poorest 10% of households than of the average, TCF protection was a highly regressive consumer tax. He gleefully noted: 'After this material was circulated in Caucus, the Left did not know how to deal with the dilemma – how to oppose consumption taxes which may or may not be regressive, but simultaneously support protective measures which were demonstrably regressive. It still does not know because there is no answer.'[121] If it was driven into the Left's psyche, then the opportunity for political advantage later drove it out again. Genuine egalitarians, like Walsh, however, remained impressed by the inescapable logic.

The hard data and tight logic also affected businessmen. Their antics during the 1970s had brought to mind a storybook character from my youth. The author said it was great gift to be able to lie to convince other people and an even greater gift to be able to convince oneself. William, she wrote, possessed the latter gift. Again and yet again I heard respected men repeat nonsense that not only would not be accepted today but also should not have been accepted then. Many times I asked were they simply lying or did they believe what they said? If the latter, did they avoid exposing themselves to the arguments that might refute their prejudices. One businessman did admit to me that he was familiar with the arguments I was using. If they understood but rejected the arguments why did they not formally refute them, even if that meant employing somebody to write the rebuttal? Was wilful ignorance less immoral than lying? The IAC would in time have worn down even William.

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[121] Peter Walsh, *Confessions of a Failed Finance Minister*, Random House, 1995, p35

Academics such as John Carroll[122], Michael Pusey[123] and Peter Brain who denied fundamental tenets of 200 years of economic learning but who would not explain in published form their rejection of the principle of comparative advantage earned my special contempt. They did no more than some businessmen and politicians did, but I felt that their refusal to publish and thereby facilitate refutation was contrary to the ideals of scholarship they professed.

The prime function of the Productivity Commission is, as the Democrat Party once put it, to 'keep the bastards honest'. With that goes the opportunity to educate. When the brief of the Tariff Board's successors was extended to the whole economy rather than just manufacturing, the highly protected import-competing industries appreciated that they had something to gain from removing all protection. When in May 1988 a Government with the courage to act came along, their bunker mentality gave place to a reasonably good-natured acceptance of reform. One can but wonder if all the anger had been genuine or if it had been an act to impress weak Governments. On the other hand it is but to give our opponents the benefit of reasonable doubt to assume that they were honest men and women in need of instruction. Either way, the Tariff Board after 1967, the IAC, the IC and the PC were crucial.

[122] *The Australian*, 8 November 1990
[123] Michael Pusey, *Economic Rationalism in Canberra: A Nation Building State Changes Its Mind,* 1991, Cambridge University Press

Chapter 7
Voices Off Stage

The central concept of liberalism is that under the enforcement of universal rules of just conduct, protecting a recognisable private domain of individuals, a spontaneous order of human activities of much greater complexity will form itself than ever could be produced by deliberate arrangement, and that in consequence the coercive activities of Government should be limited to the enforcement of such rules.

F A Hayek[124]

Economic liberalism could not have been adopted how it was, when it was or to extent that it was if the think tanks, the Tariff Board and others had not so assiduously prepared the electorate for change. Ultimately, however, if economic liberalism were to be given effect in Australia, then it would be politicians who would have to implement the principal changes. When, from about 1979, several took up the cause their constituencies were not yet demanding it, the vested interests were still influential and leadership was required of them.

A worldwide Trend

The worldwide climate of opinion had been changing for many years before the Berlin wall fell in 1989. During the 1980s some Australians were in the van of these changes but they were not by then defying the *Zeitgeist*. They could draw on experience in Great Britain, the US, New Zealand and many countries, even China.

Although Australia had tried to isolate itself behind high tariff walls and a fixed exchange rate, the international economy had been changing. Since the 1950s and early 1960s, with the gradual liberalisation of capital flows, currency traders had been able to speculate against obvious exchange rate disequilibria of many countries. Lax monetary policies, wage explosions and expansionary fiscal policies led to capital outflows and political lessons.[125]

Australian politicians were naturally interested in what other politicians had done and were doing contemporaneously. This chapter looks overseas. Setting the changing scene also serves another purpose. Every man is entitled to be judged by the standards of his own time. Malcolm Fraser, for instance, makes a fair point when he defends his record by asking critics to note that he governed relatively early in the trend.

The liberal ideals had been disparaged but never been lost. Von Mises had won a following that in time was to be influential, first in post-war Germany and later throughout the developed world. Friedrich Hayek who during the Second World War managed to have *The Road to Serfdom* published had been one of his students. From 1947 there was the Mont Pelerin Society and, from the end of the 1950s, the IEA in Britain, Milton Friedman in the US and Bert Kelly in Australia. And the United States

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[124] FA Hayek, *Studies in Philosophy, Politics and Economics*, Routledge, 1967, pp 162-3 as quoted by Richard Cockett, *Thinking the Unthinkable,* Harper Collins, 1994, p 5

[125] Wolfgang Kasper, *The Liberal Idea and Populist Statism in Economic Policy,: A Personal Perspective,* p 116

always had substantial numbers of classical liberals. (They just called themselves 'conservative'.) Nevertheless, from the 1940s to the 1960s and even into the 1970s it had been possible to portray economic liberals as cranks. Yet by the 1990s such diverse and apparently unlikely places as Hungary, Poland, India and the USSR were deregulating and privatising with gusto.

The absence of moral/ideological rhetoric suggests the respective Governments had been mugged by events rather than inspired by theory or commitment to fundamental values. Nevertheless, the ideas of, for instance, Michael Novak, who among other things stressed the connection between political and economic freedom, and the principled position of, for instance, Lech Walesa, were by then understood and appreciated. Australians too were being mugged by failure, our relative economic decline. Here too the alternatives were understood and appreciated by modest but growing numbers. Had there been no Thatcher, Reagan, Lange/Douglas or Bolger/Richardson Governments, some Australian politicians would no doubt have tried to address our economic malaise, but it is easier to swim with a current than against it.

The Lange/Douglas Labour Government in New Zealand and the Thatcher Conservative Government in the United Kingdom had both been first elected to get rid of administrations that had lost the plot – Muldoon's and Callaghan's respectively. Australian dry politicians were pleased when the Lange and Thatcher Governments actually introduced genuine reforms and surprised and delighted when their respective electorates gave them second terms. These Governments demonstrated that many things were not after all 'politically impossible'. When voters withdrew support after those Governments lost direction, Dries' admiration of electorates was further enhanced. It was, we reasoned, entirely consistent with public choice theory that the noise that we had heard in opposition to reform should bear little relationship to the preferences of majorities.

Nevertheless, there can be little doubt that it was the failure of Keynesian economic prescriptions that was responsible for Governments in several countries grasping economic nettles at about the same time. They had run out of attractive alternatives and the poor economic growth of the inward-looking economies in particularly Latin America, South Asia and Africa was evident to any who cared to notice.

The end of the Keynesian Consensus

The ideas of John Maynard Keynes dominated post-war macro-economic thinking. He was undoubtedly a brilliant scholar and publicist. He was a darling of left-wing intellectuals and many not of the left saw him as giving capitalism a new lease of life. He had been one of the principal architects of the 'Bretton Woods' arrangement that had fixed the price of gold at US$35 per ounce and committed the major economies to politically fixed exchange rates. These had held up remarkably well as long as capital flows were controlled and until the 1964 Vietnam-War inflation of the US dollar undermined them. During the 1970s, when tried in several countries simultaneously, his means of macro-economic management involving budget deficits and loose monetary policy (Keynesian stimuli) failed spectacularly. Inflation soared as economic growth and employment tumbled – stagflation. Hayek's prediction, made in the 1930s, was correct, after all!

In essence Keynes had thought that a little inflation could dupe labour and the unions into accepting reductions in the real wage that would restore full employment. When in the 1970s they turned their attention from nominal to real wages, that is, they no longer allowed themselves to be duped, redistribution battles ensued and unemployment rose. In fairness to Keynes it should be noted that had he lived beyond 1946, it is doubtful that he would have approved of undisciplined Governments adding deficit upon deficit without intervening surpluses. Nevertheless, the 'Keynesian consensus' of others' interpretations of his position dominated economic policy for three decades after his death.

When stagflation discredited Keynesian policy, the long-standing ideas of opponents of his theories, such as those of Hayek and Friedman, the leading lights of the Austrian and Monetarist schools of economic thought respectively, gained influence.[126]

The GATT

Australia had been one of 23 nations to sign the General Agreement on Tariffs and Trade (GATT) in 1948. Its successor, the World Trade Organisation (WTO), now has around 130 members. GATT was an agreement among nations to:

- apply uniform tariffs to imports of member countries and to apply concessions made to one country to all members of the club, that is to eschew discrimination – Article I, the 'most favoured nation' clause;
- treat goods, once imported, equally with domestically produced goods – Article III; and
- eschew quantitative restrictions relying instead upon tariffs – Articles II and XI.

Where the political problems were thought too great, certain exceptions were allowed under Article XX. Agriculture was from the beginning a major exception – one that was, in GATT's early days when Australia had preferred access to the UK market, favoured by Australia.

The GATT probably could not have succeeded had not the US at a time of superpower rivalry been committed to freer trade as a tool against Soviet influence. Nevertheless, the expansion of trade across national borders was one of the most persistent trends of the half-century from 1950 to 2000, increasing far faster than world GDP. The evidence is overwhelming that the increase in world competition – a consequence of broadening trade flows – fostered much higher living standards in almost all the countries.

Under the GATT's auspices, 'rounds' of multilateral trade negotiations have by mutual agreement established rules to facilitate international trade. The last four have

[126] The Austrian emphasises the process by which market participants gather information and therefore concentrates on the institutions, such as money, freedom of contract and property, by which people deal with uncertainty. He tends to be sceptical of planning and quantification generally, seeing rivalrous behaviour in markets as a discovery process. He doubts that even the most all-wise and incorruptible Government can assemble information about what millions of people each with thousands of options might do in a world where one size does not fit all. The monetarist is concerned with a public policy issue that few Governments escape, management of the currency. He emphasises the effect of monetary growth or contraction upon prices, interest rates, output and the exchange rate. Few today doubt the underlying theory but it is not always easy for policy makers to identify 'money' or estimate the lags.

been called the Kennedy, Tokyo, Uruguay and Doha rounds respectively. Australia, however, did not join the linear, across the board, reduction in tariffs of the Kennedy Round. The Uruguay Round managed to reverse the exclusion of agricultural products, textiles and clothing; and this time Australia recognised the benefits of participation.[127] But that was not until 1986. In the implementation, much but not all of the potential benefits of the Uruguay Round were disingenuously negated by the European Union and the United States. At the time of writing, it is not clear what will come from Doha. Calling it the 'Development Round', the WTO emphasised the benefit of trade to the people in developing nations. Nevertheless, environmental and labour organisations and the EU are mounting a strong campaign to allow developed countries to ban the products of developing countries if these are not produced in ways that meet the developed countries' environmental or labour standards.

Although many of the negotiating parties have tended to think in mercantilist exports-good-imports-bad terms, the GATT's activities and its publications influenced thinking. What is more, those who cared to notice must have been disgusted by the cynicism of some negotiating parties, not least the Australian until the Uruguay Round.[128] The utterances of Australian politicians at home and the demands they made upon other nations were wildly inconsistent. Doug Anthony, Australia's Trade Minister at the Tokyo Round, regarded reductions in Australian trade barriers as concessions to foreign producers rather than to Australian consumers, other Australian industries and the living standards of future generations of Australians. In 1979, he told the House of Representatives:

> Australia has achieved a meaningful and advantageous settlement with the United States, EEC, and Japan without reducing the current level of protection on a single tariff item applicable to any manufacturing industry … This was, I believe – and I am sure industry agrees with me – a commendable result.

What can a mere backbencher do about such nonsense? Snape, Gropp and Luttrell observed:

> This was one of the strongest – and last – ministerial statements of this position, fully in accord with the McEwen view of industry and trade policy that had prevailed throughout the post-war period to that time.[129]

The 'young old-men' of politics were soon to make way, but that was then by no means apparent.

The United Kingdom

Early in 1983 I ate with an elderly Tory MP in one of the Palace of Westminster's many dining rooms. Looking disdainfully about, my host said, 'They think they must go into their parish halls, learn what their constituents want, and come back to tell Her (Thatcher). It is their duty to go into their parish halls and explain what must be done for Britain'. He told much about the British Conservative Party at the time.

Britain's power that had so offended Hitler was gone and her living standards overtaken by West Germany. Since by popular agreement East Germany did not count, Britain, like Australia with Japan, had lost the peace. The British had so

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[127] Snape, Gropp and Luttrell, *Australian Trade Policy 1965-1997*, Allen & Unwin, 1998, p. 362
[128] ibid, p. 363
[129] ibid, pp. 367 & 398

reduced their economy that, had they faced 1940 again, they would have lost the war. The 'British Disease' had not responded to post-war plans, or 'social contracts', or North Sea oil, or 'The White Heat of the Technological Revolution'. In 1983, toward the end of Margaret Thatcher's first term, the British Disease was, however, about to respond to 'Thatcherism'.

John Ranelagh wrote of Thatcher that she was 'the Receiver in Bankruptcy of the British political order'.[130] She was said to have declared, 'It would be nice to win the next election but winning the argument is far more important'. I hope the story is not apocryphal. Australian politicians would be better remembered if more of them followed that advice. When the British public re-elected her in 1983, politicians and the interest groups that had dominated them had been compelled to ask whether voters might be a lot less selfish and short-sighted than they had presumed. In spite of manifest errors in implementation, her domestic policies were becoming received wisdom.

Her 'revolution' has been analysed in economic, institutional and political terms, but none is complete without consideration of its moral basis. From Hayek's publication of *The Road to Serfdom* to Thatcher's election the case for liberalism had been put not just in terms of material advantage but also of right and wrong. Few doubt that Thatcher saw herself as crusading. While still in Opposition she had said:

> ...you have constantly to assert that people have a moral responsibility which they must accept. Moral in the widest sense of the term. Moral responsibility for their own actions. We must exorcise the idea that if you do something wrong it is not your fault but the fault of society around.

The chattering class still say that the quotation shows Thatcher at her school-ma'am worst. The wider public is, however, not averse to normative assertion. While Thatcher hectored them the British public re-elected her in 1983 and again1987. She was, in fact, re-elected more often than any British Prime Minister since Lord Liverpool between 1812 and 1827. It may be relevant that he too was a liberal-economic reformer.[131]

Her critics were no less given to moralising – they merely employed a different, less traditional, moral scale. They accused Thatcher of dividing Britain – north against south, black against white, worker against employer, welfare recipient against taxpayer etc. If Britain's remarkable economic recovery and nowadays by European standards low unemployment levels were achieved only at the cost of increased social division, they might still be worth their cost but the cost should be conceded. However, if we recall that her election marked the end of poor James Callaghan's infamous 'winter of discontent,' the accusation immediately seems unlikely. When we note Britain's rising employment despite the strong pound, absence of industrial protest and even Labour leader Tony Blair publicly turning to her for advice, it becomes preposterous. Today's Tories and Labour divide less on economic matters than cultural, such as political correctness.[132]

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[130] John Ranelagh, Thatcher's People, Fontana, 1992, p 20.
[131] Richard Cockett, *Thinking the Unthinkable,* Harper Collins, 1994, p 322
[132] Hal G.P. Colebatch, *Blair's Britain*, Claridge Press London 1998

Yet Thatcher did give the British social order a considerable shaking that opened cracks that were evident within her first term. These appeared most notably within the union movement, the industry lobbies and the Conservative Party itself. Other rifts were closed however, as she reduced the numbers of unemployed, brought trade unions within the ambit of ordinary law, won broad consensus among the governing elites and gave people their own homes and hope.

By the time of my conversation with the Tory MP and very shortly thereafter the demise of the Fraser Government, the Thatcher experiment was reaching only the end of the beginning:

- Productivity had risen sharply and stories of success in European markets were being recounted with satisfaction.
- Few British by then doubted that she would stick to her economic policies.
- Because British Labour had not then reformed itself, most people thought that a replacement Government, if there were one, would come from the Alliance, comprised of the Social Democratic Party (made up of defected Labour MPs and a couple of Tory Wets) and the Liberal Party. The Alliance had committed itself to retaining most of Thatcher's policies.
- Despite three million unemployed and Britain's unpleasant class divisions, there had been relatively little violent protest – the public had accepted that trade union power had to be curbed.

It was still too early to be confident that Thatcherite policies had put Britain on a path of sustainable economic growth. For every piece of available evidence that that was the case somebody always produced counter-evidence. Some Australians were however, carefully studying political events in Britain.

Serious policy errors had exacerbated Britain's immediate difficulties. Her monetary policy was tighter than intended and the Tories had agreed during the 1979 election campaign to exempt Britain's huge public sector from cuts in real earnings.[133]

Thatcher never did succeed in controlling Government expenditure. Between 1979-80 and 1990-91, in real terms, health expenditure increased by 37%, social security by 35% and education and science by 16%. Her 'monetarism', without deep cuts in public expenditure and supply-side reform generally, placed too much pressure on too

[133] With inflation running at 22%, the new Government had reduced the money supply – the conventional monetarist response. However, M3 the most used measure was not at the time in Britain reliable. Controls on regulated money had encouraged people to seek unregulated securities that had become in effect monetised but were not included in M3. When the controls were removed liquid assets flowed back into bank balances and other more conventional 'money'. M3 expanded rapidly but money, an imprecise concept at the best of times, did not. Monetary management was, in consequence, tighter than intended. Inflation had been reduced to 12% and was still falling but at the price of even more unemployment. Despite having been warned by the Centre for Policy Studies, of which more below, she had done little by then to address public expenditure or to reduce the control of national resources by inefficient publicly-owned enterprises. During the election she had undertaken to be bound by an inquiry into public sector pay scales, the Clegg Commission, further insulating the public sector from the adjustment pains in a country where every second employee worked for the Government. The pain experienced by the private sector was even further increased by high oil prices, which, as Britain is a substantial oil producer from the North Sea, produced a strong pound. See Richard Cockett, *Thinking the Unthinkable,* Harper Collins, 1994, pp 295-7

small a part of the economy. Failure to cut expenditure was to cause inflationary pressures to rebuild in the late 1980s.[134]

However, in her second term between 1983 and 1987, Thatcher addressed further labour market liberalisation and privatisation. Together these measures provided the enduring efficiencies and flexibilities that have since stood by the British economy. The electorate accepted these reforms too, again re-electing her. Then Labour reformed from within, substantially adopting Thatcher's reform program.

Her battle with the trade union movement became the stuff of legend. Jim Prior, Thatcher's first Minister for Employment was the archetypal, consensual, collectivist Conservative politician and Thatcher's most effective opponent within the Cabinet.[135] His Ministry, therefore, moved only extremely cautiously against the closed shop and trade union immunities from the law. Norman Tebbit, an ex trade-union man, who replaced Prior in September 1981, needed no encouragement to reform. I recall noting at the time, however, that although he moved relentlessly against union privilege he did so by steps that each wisely fell short of provoking a general strike or alienating public opinion. When the coal strike erupted in 1984, about half of Britain's mines continued to produce and the public remained generally on side.

Privatisation or 'denationalisation' had been recommended by the IEA and was taken up as the principal cause of the Adam Smith Institute. In its second term, after 1983, the Thatcher Government privatised several utilities and local Government let many functions to tender. The efficiencies won were considerable but more would have been available had more be done to divide the monopolies. The program was widely criticised for this failure, with hindsight it would seem correctly, but it had been demonstrated that public sector monopolies are even worse than private sector monopolies.

The success of waterfront deregulation was but one example among many to impress Australians. It was achieved by a very carefully planned campaign to getthe necessary support from the Government and its advisors, other MPs, the dry think tanks, the stevedores, the shippers, the users of shipped goods, unions other than the Transport and General Workers Union and the press on side and, where relevant, to have them make plans to cope with initial disruption. In July 1989 the Government repealed the dock labour scheme. By only October of the next year, the waterfront was functioning better with less than 4,000dockers instead of 9,221. All national agreements, all seventy port agreements, all industry Conciliation and Arbitration procedures and all national and local employers associations had been removed from waterfront management. New industrial contracts based entirely on the relationship with each employer's own workforce, with flexible shift patterns, part time working and contracting were in force. Artificial demarcation lines and labour pooling were gone and programmes that operated without Government money were in place. Dockers in five ports established major stevedoring companies with their own redundancy money. Productivity improved by between 25% and 400% and ship turn-around times by up to 100%. Docks and container berths that had been closed for sixteen years were opened. The ports won new investment in the port facilities themselves and in

[134] Richard Cockett, *Thinking the Unthinkable,* Harper Collins, 1994, p 316
[135] ibid, p 298

warehousing, cold storage, packaging, food preparation, and processing plants. For the foreseeable, the incubus of a national dock strike was lifted from the British people. Dries were as fascinated by what a concerted and well managed campaign could achieve as by the reforms themselves.[136]

By the 1987 election, Thatcherism had become a by-word for a way of Government that privatised, deregulated and reduced trade union bosses to the status of citizens. As the 1980s had progressed, for the first time in decades, Britain's economy had outperformed most other industrial countries.[137] By then, however, the Thatcher Governments had lost their reforming zeal. Thatcher eventually went the way of all political leaders too long in office. Ceasing to take advice, she began to substitute her own prejudices for those of a coherent body of thought. Her ultimate nemesis was an issue, the extent of Britain's collaboration with the European Community, on which liberal reformers could not agree. These raised political and cultural questions for which economic answers were inadequate. Even the IEA, which had provided so much of the intellectual basis for her reforms, was divided. At no stage had it proffered advice upon how to deal with the collectivist tendencies of the European Union.[138]

Thatcherism, particularly its monetary aspect, had in fact begun before her election in 1979. Under the pressure of circumstance and the International Monetary Fund, British Labour had been forced to adopt some of what had long been IEA's prescriptions. Attitudes too had already begun to change. James Callaghan, the Labour Prime Minister, addressing his own party conference in September of 1976, virtually endorsed the IEA's analysis of Britain's economic plight.

Thatcher had turned Britain away from privilege toward a society of citizens of equal legal status. It was hardly remarkable that the once powerful and influential did not much like her. Since it could no longer be denied that she had benefited the British economy, she was accused instead of harming British society, a concept supported by less robust data but one which could influence many natural conservatives. Thatcher was, of course, not a conservative but a liberal.

The Lady no doubt sees it otherwise, but I can't help the thought that it was the genius of democracy that she was forced out while her huge contribution to Britain, and by example to the world, was substantially intact. She had been a woman of action, a soldier in the Good Fight, who possessed political courage, tenacity in the face of abuse and setback, willingness to face unpleasant facts and single-mindedness. She had placed the welfare of Britain ahead of re-election and the state of the British economy and society today must be her testimony.

New Zealand

Although the Australian dry politicians relied more upon Britain and the United States for arguments, New Zealand offered them an unparalleled case study. It had begun the last quarter of the century more dominated by 'wet' Government than Australia at its

[136] Nicholas Finney, *Back to the Waterfront*, hrnicholls.com.au
[137] Allan H Meltzer, *The Fortune Encyclopedia of Economics*, Warner Books, 1993, p 132
[138] Richard Cockett, *Thinking the Unthinkable,* Harper Collins, 1994, p 327

worst; then the remedial 'dry' changes were similar but more radical; and finally New Zealanders' reforming zeal would be reversed more completely. No nation is politically, culturally and economically more like Australia. Lessons learned there could be applied here with exceptional confidence.

When in 1984, after the defeat of Fraser Government in Australia, the Lange Labour Party defeated the Muldoon National Party that had governed for 29 of the previous 36 years, the New Zealand economy was in a mess of Latin American dimensions. In the words of the new Finance Minister, Roger Douglas, for 30 years economic management had been dominated by the demands of sectional interest groups that became used to having their demands met.[139] During that time New Zealand had fallen from the third wealthiest nation in the world to the 22nd and was performing worst of all OECD nations. Muldoonism had become a byword for foolish economic management.

Under Douglas's driving influence, New Zealand began a program of rapid structural reform. Much later he told a Canadian audience that 'within three years, New Zealand went from being one of the most regulated economies in the OECD to being one of the least'. He exaggerated a little, but the Lange-Douglas Government did more in less time to liberate the New Zealand economy than had any OECD Government since Erhard's bonfire of the regulations in post war Germany.

Douglas wrote:

> A Government's first duty is to work out its objectives. Secondly it must develop policies …. The objectives, whatever portfolio they might fall within, including Finance, are ultimately <u>all</u> (his emphasis) social. They are to do with people's living standards, with their security and with personal and financial opportunities.[140]

Note his appeal to Labour Party values.

The new Labour Government enjoyed exceptional intellectual input from its Treasury, Reserve Bank and the New Zealand Business Roundtable. It immediately devalued the currency, deregulated interest rates and abolished exchange rate controls, then floated the New Zealand dollar. It cut taxes, taxed social security benefits that were very much more generous than in Australia, corporatised and then sold state-owned assets, removed subsidies, deregulated the supply of goods and services, and rapidly reduced most import barriers. In these actions it had the support of a National Party Opposition that was ashamed of the Muldoon years and key business groups such as the Federated Farmers and the NZ Business Roundtable. Such generosity in a political Opposition is rare, yet the Australian Liberal/National-Party Opposition was at the same time supporting the Australian Labor Party's reforms. There was something unusual about the *Zeitgeist.*

The New Zealand electorate, like the British, re-elected the reforming Government. Nevertheless, early into Lange's second three-year term the Government's standing fell. Douglas claims the Government had ceased explaining why it was reforming.[141]

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[139] Roger Douglas, *Rogernomics,* GP Books, 1989, p 23
[140] ibid
[141] Roger Douglas, *Rogernomics,* GP Books, 1989, p 24

While Douglas was overseas the left wing of the Labour Party, the superannuation lobby and some others suborned the Prime Minister into announcing a 'tea break'. Roger Douglas came charging home to fight the vandals but he lost that fight and was dismissed as Finance Minister. He and two other Ministers left an increasingly divided administration.

Douglas had become a hero among economic liberals the English-speaking world over and was the obvious choice to address a Mont Pelerin Society dinner in Christchurch. It was a remarkable speech delivered when the New Zealand economy was not out of the woods but when a future prosperous New Zealand had become thinkable. Rogernomics, as the reforms had been dubbed, was being compared with Thatcherism, the reforms that produced the Asian Tigers –South Korea, Hong Kong, Thailand, Malaysia, Taiwan, the Philippines, Singapore and Indonesia– and Erhard's bonfire of 1948-55. Significantly, New Zealand's reforms had been achieved within the constraints of a mature democracy. Some fine minds, from Nobel Laureates down, listened carefully to Douglas that evening.

These scholars had preached in economic terms all that was necessary to avoid and to reverse the British Disease, the Dutch Disease, the New Zealand Disease, the Australian Disease, etc. They had, however, been unable to tell the politicians how to do it. In fact, their theories about politics tended to be pessimistic. Public choice theory explained to their satisfaction why politicians damaged economies and the theory encouraged them to expect all lawmakers to remain enslaved by vested interests and to treat the next election as the end of time. Douglas did not fit their model.

With authority that came with achievement, he was arguing that the 'quality decisions' – his term – that are the keys to structural reform were not only politically possible but enjoyed voter support.

> [Politicians and voters] can take the costs up-front for larger medium-term gains; or focus on short-run satisfaction to be sandbagged later by the accumulated costs. Voters ultimately place a higher value on enhancing their medium-term prospects than on action that looks successful short-term, but only by sacrificing larger and more enduring future gains....
>
> There is a deep well of realism and common sense among ordinary people....[who] accept low incomes as students to earn more later...save for old age and invest for their children. They want politicians to have guts and vision to deliver sustainable gains in living standard.
>
> [Only] inadequate politicians see instant popularity as the key to power. If their rating slips, they feel threatened. They look for policies with instant appeal to create continuous public bliss.

He also told of an event following his first budget. People who insisted that their own privileges were special had inundated him with requests for opportunities to put their cases. He agreed to meet several of them together but arrived late. There was thus a little time for interaction between the groups. By the time that he arrived, the complainants had become subdued because far from being able to combine to savage

the Minister it had become apparent to them all that they did not have a common interest. Each group's privilege was another group's cost. The dairy farmer did not like the inefficient rail system; the railway union and the welfare agency did not like expensive milk; nobody liked high taxes and so on.

Defining 'quality' as the actions that deliver most benefit in the medium term, Douglas contended that when the Lange Government implemented quality policies the polls showed on-going voter approval and, wherever it stopped short of quality, the polls showed rising disapproval. He may have generalised too widely, but certainly New Zealanders re-elected the Lange Government at the height of its reforms and dismissed it only after the 'tea break', electing a party promising radical labour market reform. Douglas offered a very much more optimistic view of democracy than most of the governing classes accepted, but one that was borne out also by Australian and British experience. What is more, he had only to be partly right to offer hope to the democratic world.

Douglas himself was a necessary but insufficient condition for Rogernomics. Circumstance and bad politics had taken New Zealanders to the edge of an abyss from which they had peered at the bones of once wealthy nations such as Argentina. New Zealanders were aware of the worldwide revival of classical-liberal ideals. Rogernomics had the benefit of economically-literate senior bureaucrats and industrialists who cared enough to argue. The very deep abyss aside, these were conditions that pertained in Australia also. It is doubtful, however, whether an Australian equivalent of Douglas, had there been one, could have got Douglas's reforms past the Senate.

During the course of the address, Douglas offered ten pieces of advice to politicians.

Roger Douglas's ten principles for structural reform

- Quality decisions start with quality people. Moving quality people into strategic positions is a prerequisite for success.
- Implement reform by quantum leaps. Moving step by step lets vested interests mobilise. Big packages can neutralise them.
- Speed is essential. It is impossible to move too fast. Delay will drag you down before you can achieve your success.
- Once you start the momentum rolling, never let it stop. Set your own goals and deadlines. Within that framework consult widely in the community to improve detailed implementation.
- Credibility is crucial. It is hard to win, and you can lose it over-night. Winning it depends on consistency and transparency.
- Let the dog see the rabbit. Wherever practicable, spell out your objectives and intentions in advance.
- Stop selling the public short. Voters need and want politicians with the vision and guts to create a better future.
- Don't blink or wobble. Get the decisions right, and front up. Confidence often rests on your own visibly relaxed composure.
- Opportunity, incentive and choice mobilise the energy of the people to achieve successful change. Protection suppresses it. Get the framework right to help everyone act more effectively.
- When in doubt, ask yourself: 'Why am I in politics?'[142]

With a touch of bitterness, he had also said, 'Politics is a mess because too many quality people are content to criticise from the sidelines.' That too was true of Australia!

As in Britain, nothing illustrated the rigour of Douglas's program better than the waterfront. New Zealand's wharves had been even less productive than Australia's but after the reforms became among the world's best. Change was not achieved without a costly strike and some direct loss to waterside employees whose annual earnings fell from around NZ$70,000 to NZ$50,000. What is more, they incurred the inconvenience of attending their places of employment for the hours that they were paid. The gains were, however, not trivial. Ports of Auckland became profitable paying NZ$122 million in company tax. The fertiliser and dairy industries each claimed to be saving $5 million annually. There was industrial peace. The waterfront became 'just another industry'

In 1990, in spite of the fact that by then investment was coming back to New Zealand, rising in the year to June 1990 by 12% real, the Bolger-led National Party defeated the Lange Labour Government. Voters returned a party that was to continue the Douglas reforms and introduce others. Ruth Richardson, the new Finance Minister, was committed to economic freedom without respect for sacred cows. In many respects

[142] This is the abbreviated form that AIPP printed on a credit-card size piece of plastic, *The Credibility Card*, that it sent to every Federal MP and to candidates thought to have a chance of winning at the 1990 Australian election. It was, of course, a tease and, if the banal conduct of that campaign was an indication, not a very successful one.

she was more Douglas than Douglas and she had advertised the fact. The sequence of election outcomes was interpreted in inconsistent ways. The one that I like, however, is that in spite of vehement denunciation of all that Douglas stood for by unionists, newspaper columnists, churchmen and other members of the chattering class, the street marches and the false forecasts by academics, the NZ public had understood what he was saying, liked it, and trusted him as much as it trusted anybody. But when, having done a lot and won one election on the way, the New Zealand Labour Party backed off voters threw it out. It is the simplest explanation and it is the only one that does not disparage electors.

Examples of the demise of tired Governments are plentiful but as knockdown evidence for my preferred thesis they often suffer the difficulty that a tired Government does not preclude an equally tired electorate. New Zealanders, however, knew that this incoming Government promised radical labour market reform and further privatisation.

By 1991 New Zealand was beginning to reap the benefits of the Douglas reforms. In May, (that is, six months before Keating replaced Hawke as Australian Prime Minister) the NZ parliament passed the *Employment Contracts Act* (ECA) abolishing compulsory unionism and allowing workers to negotiate for themselves or to use a privately chosen bargaining agent. Thus, when both parties wished it, employment contracts were permitted to replace awards. A minimum wage and other statutory minimums still prevented a worker from reducing the direct cost of his job, but the Act allowed him to negotiate away wasteful work practices in exchange for higher remuneration or whatever. The ECA retained an Employment Court staffed with holdovers from the old system that was to do its best to prevent employment contracts becoming as uncontentious as other commercial contracts.

An editorial in *The Dominion* described the ECA as a ‘dizzying industrial free-for-all’ and Ken Douglas, the head of the Council of Trade Unions, warned that ‘the munitions factory [was] having the chains taken off the door’. Some employers were terrified, and industrial journalists enjoyed writing about splits in employer ranks. The New Zealand Labour Party opposed the Bill and eventually, in 2000, repealed the Act.

The ECA was nevertheless a huge success. In the five years before the ECA, workdays lost through strikes had averaged 266,000 per year. In 1998 only 11,778 were lost. Industrial relations simply ceased to be newsworthy. In the private sector, occupational and multi-employer awards nearly all went. Many uneconomic penal and overtime rates were replaced by performance-related pay and some productivity gains were spectacular. For instance, productivity rose 300% in the big Lion Nathan brewery and, at the other end of the scale, by going over to piecework, a clothing factory escaped imminent insolvency and at the same time raised its workers’ incomes by $110 per week. Union membership fell by around 20%.

As predicted by some, average weekly earnings did fall during the early 1990’s as the low-skilled once-unemployed brought the average down, but by 1999 these were NZ$682 compared with NZ$640 (1999 dollars) in 1991. Discovering a hitherto latent interest in productivity, critics of the ECA complained that productivity gains had been only modest. As unemployment fell from 11% to 6%, total employment grew by 250,000 of New Zealand’s least skilled potential employees. It was therefore

remarkable that labour productivity gained at all. The proportion of casual to permanent employees remained much as it was. Part-time work did increase considerably but only 7% of those employed part-time said they preferred full-time work. Maoris, women and the long-term unemployed gained disproportionately.

By 1992, the post office had turned an expected $50 million loss into a $30 million profit. Real electricity prices had been reduced by 13% while the profit of the corporatised authority had gone from $140 million to $404 million. Coal Corporation of NZ Ltd, which had lost money in 20 of the previous 22 years, turned in a profit while reducing the real price of coal from $73.48 per tonne to $52.20 per tonne (both in 1986 dollars). NZ Telecom had increased its profits by 300%, while cutting the real cost of phone services by 20% and reducing the waiting time for a phone connection from six weeks to three days. NZ Post achieved an exorbitant profit (30% on capital) while charging 40 cents per standard letter. Stevedoring charges were down by 20-50% and turn-round times for vessels had been halved. NZ Rail had raised productivity by 900%, admittedly from a woeful base.

During 1993/94 economic growth reached 7% and the emigration of skilled people had turned around. New Zealand was again able to hold its brightest, most enterprising youngsters and companies such as PDL Holdings, Heinz, Gillette, Unilever, Kraft, Shiseido, Johnson and Johnson, Alcatel and Mars had chosen to invest in New Zealand rather than in Australia. Although the NZ Labour Party at that time would probably have reversed few or none of the important Bolger/Richardson policies, it seemed that NZ voters were not about to run that risk. It is plausible that if the risk had been removed the electorate may have taken great pleasure in punishing the National Government, as another electorate was later to punish the Kennett Government in Victoria. However, encouraged by Richardson, the Government had stuck bravely to the task of remaking New Zealand to find that the electorate re-elected it.

Between 1984 and 1994, under first Labour and then National Party Governments, New Zealand was the leading economic reformer of the Western world. It had deregulated its financial markets; abolished import controls and reduced tariffs; abolished farm subsidies and export assistance; privatised or corporatised many state utilities including Telecom, Air NZ, Postbank and the railways; introduced a Goods and Services Tax (GST); radically reformed the labour market; given its central bank the one task of keeping inflation within the 0-2% range; and legislated the *Fiscal Responsibility Act* requiring the Government to accept the accounting standards expected of the private sector.

Australian Dries were glowing in their praise, but the New Zealand Business Roundtable was more cautious. It was to prove nearer the mark. New Zealand was coming off a low base. It was, the NZBR pointed out, not difficult to do better than the past but more difficult to match the world. The reforms, for all their brilliance, had serious omissions and voter patience was tested by economic dislocation that was real.

Nevertheless, by the year ending March 1995, the New Zealand economy was still growing at 5.3% per annum. Real household disposable incomes had risen by 3.7% in the year to June 1994. Unemployment was expected to fall to 8.5% – better than Australia at that time. Inflation, as measured by the consumer price index, was 1.3%.

The New Zealand budget had a surplus of 0.6% of GDP with a rise to 2.7% expected for 1995-96. Net public debt that had peaked at 51% of GDP in 1991-92 and was down to 42%. The current account deficit was 1.4% of GDP. The OECD report of February 1993 had said that New Zealand was positioning itself for sustained non-inflationary growth. The NZIER Survey of Business Opinion showed the most sustained period of business optimism for 26 years. The Kiwis were finding their accustomed aura of gloom harder to maintain, but it was then that they turned on the Government and then that the conservatives in the Government lost their nerve.

Ruth Richardson's departure from the Parliament in 1994 marked the end of New Zealand's political will. Twice New Zealand had suffered Prime Ministers that were not committed to the reforms and sacked their drivers.

The USA

Throughout the final quarter of the 20th Century the capacity of the United States enterprises to create jobs stood in sharp contrast to Europe and Australasia.[143] Flexible labour markets made possible by the absence of restrictive regulation were associated in the US with much better jobs growth than elsewhere. Defenders of regulation tended not to deny that the labour-market flexibility explained the low levels of unemployment but pointed to the working poor – people who by wealthy US standards had low incomes. The claim was factual, but these poorly-employed people lived better than the unemployed in Europe, Australasia or the US itself. What is more, they were not destined to be imprisoned in a welfare-dependent underclass but were in a position to climb the employment ladder.

Americans contributed much to the liberal-economic intellectual ferment. Their supply-side reforms, in the cases of airline and trucking deregulation at least, influenced Australia. They were, however, marred by the explosion of the budget deficit in the Reagan years. I had too much difficulty disentangling the expenditures the Reagan Administration needed to win the Cold War to draw much instruction from its economic management, which I suspected was second-rate. Not every Australian dry agrees with me. The Reagan tax reduction, some say, eventually forced the expenditure reduction. The United States' greatest contribution to liberal reform in Australia came from the ideas of people such as Milton Friedman, James Buchanan, Julian Simon, Charles Murray and many more, including the well-funded think tanks, Cato, American Enterprise and Heritage.

The Asian Tigers

In contrast, it was not what was said in several nations in East Asia but what was done that impressed Australians. Initially the Asian Tigers (South Korea, Hong Kong, Thailand, Malaysia, Taiwan, the Philippines, Singapore and Indonesia) and Japan had achieved extraordinarily high, sustained growth from a low base while importing capital and technology – catch-up economics in countries where industrial lobbies had not yet established a strong hold over parliamentary clients. By the 1980s, however, Japan and Singapore had for practical purposes caught up and were exporting capital and know-how to industrially backward Australia.

[143] 4.1% unemployed in 1999

Such success, albeit off a low base, was bound to influence thinking in Australia. There was probably some merit in the argument, often advanced by Australian protected manufacturers, that the Asians of those times picked winners. The significant difference at that time was that we featherbedded yesterday's industries, that is, we picked losers. Relatively poor nations during a catch-up phase can imitate, but when they actually catch up they no longer can know what the winners will be. That is not to argue that at any time Governments can be trusted with intervention. Even the best, in time, get too close to their clients and then we get what in Korea was called 'crony capitalism' and in Australia, 'WA Inc.' etc.

The Cultural Agenda

By the 1980s more of the discussion circulating internationally had turned to the foundations of civil society. Non-economic cultural issues, such as the limits of Government, crime, family breakdown, community, dependency and virtue had gained greater prominence within it. Although the issues were different, at a fundamental level the battle was the same. It was still individual autonomy, personal responsibility and voluntary association versus compulsory collectivism. As argument shifted from what people may do for mutual reward to what they ought to do as citizens, names such as Bridget and Peter Berger, Michael Oakshot, John Gray, Gertrude Himmelfarb, Myron Magnet, Lawrence Mead, Charles Murray, Michael Novak, John Rawls, Wilhelm Ropke, David Selbourne and John Q. Wilson kept cropping up wherever public policy was discussed.[144]

Some of these see themselves as on the left, others on the right; some say they are liberal, some conservative. Each would, however, have agreed with Ropke who wrote:

> Self discipline, a sense of justice, honesty, fairness, chivalry, moderation, public spirit, respect for human dignity, firm ethical norms – all of these are things which people must possess before they go to the market to compete with each other.

Ropke had warned in 1960 that 'it would be sheer suicide on the part of the market economy's friends to leave to others the cheap triumph of this discovery'.

As the world abandoned collectivism, events and people closer to home had particular influences over the attitudes and confidence of Australian politicians.

The Press

Although the media reflect public opinion more than they influence it, they, of course, do have a special capacity to change what large numbers of people believe and even know about. In Australia, as elsewhere, the media most often reflected the collectivist hegemony. Often naïve and untutored in even basic economics, history and politics they were to concentrate on the failures of uncontrolled individuality. On the whole they worried dry politicians more than encouraged them. There were, nevertheless, classically liberal journalists and commentators. Most notably throughout the collectivist years, Max Newton, Peter Samuel, Paddy McGuinness, Alan Wood and Max Walsh were consistent in their advocacy of dry economics. Newton an early editor of the *Australian Financial Review* had established what became the continuing freer-trade position of that paper, when it might have favoured the protectionist

[144] These few names are from the references pages of *From the Welfare State to Civil Society* by Dr David Green, a study commissioned by the New Zealand Business Roundtable.

sympathies of many of the business readership. These and others presented the dry economic cause well and frequently enough for it to grow in acceptance in some business circles.

Leading newspapers gave the dry politicians, the staff of the think tanks and other economic liberals opportunities to reach wide readerships. Bert Kelly wrote about 1000 newspaper columns, I wrote well over 700. Without this opportunity much less could have been achieved.

With their struggle for the culture, Dries were to do less well. Television is the important medium and its commentary and soap operas tend to reflect ephemeral values and more immediate gratification than those of mainstream Australians. Dries did not develop an adequate strategy to counter media that cater to violence and voyeurism.

The Industry Lobbies

The Australian business community is well organised. Although it helps to finance the dry think tanks, in their dealings with Governments businessmen are mostly rent-seekers. Their contributions to public policy formation were, therefore, with a few notable exceptions negative. The Business Council of Australia (BCA) around the time of its Debt Summit was briefly among these exceptions but, even so, its record compares unfavourably with the New Zealand Business Roundtable which was consistently pro-market. Hugh Morgan, the CEO of Western Mining, was also over a longer period a notable individual advocate of liberalism. The Western Australian Chamber of Commerce and Industry from the early 1980s deserves honourable mention.

Farmers, despite most of them having little option as exporters but to be efficient, devoted most of their energies to preserving regulated prices in the domestic market and inefficient statutory marketing and handling monopolies. However, the free-market voice within primary industry, unlike secondary industry, was always significant. It predominated while David Trebeck and Ian McLachlan ran the National Farmers' Federation. In 1985 the NFF, calculating that the net gain to farmers of lifting the protection of other sectors and of wage indexation would be 54 times greater than the benefit of the superphosphate bounty, called for protection reduction all round, including their own.

The professions too mostly lobbied and campaigned for their own privileges but both accountants and lawyers from time to time addressed tax or legal matters in terms of the public interest. It is easy to wish a pox on all lobbyists. Australia would probably have been very much better governed had there been none but their activities are, lies aside, legitimate, even potentially helpful. The real fault lay with the Governments that acceded to their demands.

The Workers' and Progress Parties

During the 1960s, Bob Howard, who had written *Rip van Australia,* Duncan Yule, John Singleton, John Whiting, Ron Kitching, Ron Diamond, Ron Manners, and other people of libertarian inclination formed the Workers' Party. It fielded candidates winning 14% of the vote in a rural WA parliamentary seat but never came close to winning one. When it collapsed, the Progress Party was formed from its ashes.

Although it also never looked like winning seats, because it was intellectual and gave no quarter to vested interests, it was respected among people interested in public policy. It succeeded in seeding ideas that in time bore fruit. Probably more significantly, these organisations spawned a network that lives on, offering ideas to any who will listen and encouragement to any who will try.

The Public Service

Although exceptions are plentiful, the civil service's influence on public policy may be divided between the empire building of the service-delivery departments and the whole-of-the-nation approach of Treasury, Finance and Prime Minister and Cabinet, their equivalents at State level, and the Reserve Bank.

The Westminster tradition prevents individuals from contributing as much to public understanding as they do, for instance, in the United States, nevertheless, public servants contributed much to better policy that is under-recognised. Alf Rattigan, Dick Boyer, Bill Carmichael, John Stone, Austin Holmes, and Ted Evans require special mention.

In January 1979, the Fraser Government appointed John Stone, a Rhodes Scholar with an extraordinarily sharp mind and notorious intolerance of fools, as Secretary to the Treasury. Although Stone was bound by civil service codes of secrecy and loyalty to the Government of the day, which he honoured to the letter, the world was seldom in much doubt as to what he believed. His beliefs were conventional, rigorous and often condemnatory. On the whole they withstand the scrutiny of hindsight very well, except possibly his opposition to floating the currency. It is not known why Stone opposed floating and I am inclined to accept David Barnett's view that Keating, the then Treasurer, gave a great deal of spin to his fairly conventional advice that pointed to real consequences and risks, some of them political.[145]

Stone was often a poor advocate, tending to patronise lesser minds and moral weaklings. I am convinced that Australia would have been better governed had he managed better to disguise his contempt for some Ministers. Upon his retirement from the Treasury he entered the Senate, ironically as a National Party Member. He later joined the staff of the IPA, was prominent in the HR Nicholls Society, formed the Samuel Griffith Society and wrote a very effective weekly column in the *Australian Financial Review*. When talk of the formation of a new conservative (economically liberal) political party developed, his name was often mentioned.

Austin Holmes, who is even less widely known, too possessed an acute mind admired by other economists. He had an earthy humour,[146] exceptional patience and kindness and was unerringly on the side of liberty and individualism. Serving on the Whitlam Government's Priorities Review Staff, as an economist in the Department of Prime Minister and Cabinet, and as head of the Research Department at the Reserve Bank, he was a never-tiring iconoclast, who nurtured the young and bluntly advised the not-so-young.

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[145] David Barnett, *John Howard*, Viking Press, p 259

[146] He once observed that, like statistics, he too had been 'broken down by age and sex'.

No account of what he liked to call 'The Good Fight' would be complete without at least one Holmes anecdote. In 1981 or 1982, he had been invited to address the Government parties' Treasury Committee. We Dries felt that the Fraser Government's economic policy was irresponsible and expected the plain-speaking Holmes to say so. Further, we felt strongly that the majority of the committee, who were demanding more folly than even Cabinet would countenance, needed their heads knocked together.

To our chagrin Holmes simply explained the current state of the economy in terms of the macro-economic variables, without making comments or suggesting policy changes. Then he answered economically irresponsible suggestions by simply indicating the immediate effects of the suggested policy changes. Meanwhile the Dries were nearly in tears. Finally, someone asked if interest rates could be cut to encourage investment. 'Naw' says Aussie, 'with what you bastards have done to the economy tonight it is fucked'. Several faces fell, the Dries had won their point, the bells rang to mark the end of the dinner break and we all trooped off.

As a backbench MP I had made a few speeches critical of my own party's economic management. I had said nothing original, relying on conventional sources such as IAC reports and Treasury and Reserve Bank sources, but criticism itself attracts attention. I was therefore painfully aware of my lack of economic training. At a post-budget party, Aussie, whom I had not previously met, drew me to one side and said that we must make time to talk. He did not say that he was prepared to undertake the education that I needed if I was to continue the path I had set myself upon, but somehow he implied it. From then until his death he patiently and kindly explained economic principles, as I needed them.

He did as much for anyone who would try to get the arguments right and had the courage to express them. Holmes left a valuable legacy in the form of younger men and women who because of him found the courage and knowledge to fight the Good Fight.[147]

We now turn to politicians and Governments.

[147] Chris Ulyatt editor, *The Good Fight, Essays in Honour of Austin Stewart Holmes,* Allen & Unwin, 1989, offers an excellent account of his character and of the economics he believed in.

Chapter 8
The FraserYears I

Double speak means the power of holding two contradictory beliefs at the same time, and accepting both of them
George Orwell in *Nineteen Eighty Four*

A foolish consistency is the hobgoblin of little minds
Emerson employed by Reg Withers to tease me

A Long View from a Low Height
Ross McLean's description of a dry backbenchers' view of the world

During the terms of the Fraser Governments the dry ideal found champions in the Federal Parliament to continue Bert Kelly's lonely crusade. They achieved little immediate change in the statutes but, in Paul Kelly's words, they established 'a counter establishment loosely united by a new ideology, networks, a mutual support mechanism and a comprehensive economic view of the Australian disease'.[148] We will look first at how these operated, then at some macro economic issues and then in the next chapter at the more important individual campaigns.

1975 and all that
Despite winning a huge 55-seat majority on 11 November 1975, Malcolm Fraser's mandate was flawed. Having forced the Whitlam Government to the people in 1974 and lost the consequent election, the Coalition in the Senate had again blocked the appropriation bills of the 1975 budget. By then unemployment, inflation and the Kemlani loans had discredited the Government. The electorate was heartily sick of Labor, but Whitlam took a course that Fraser had not anticipated. Instead of advising the Governor General, Sir John Kerr, to call an election, against all precedent, he decided to tough it out in the belief that Coalition Senators would lose their nerve, break ranks, and pass the appropriation bills. The Senators did not.

Although public service overtime work was still done, payment for it had already been withheld and the Government had lawful funds for only one more fortnightly salary payment. When the day that the Government would have been unable to pay salaries and pensions approached, Kerr withdrew Whitlam's commission and appointed Malcolm Fraser in his stead on the understanding that the Coalition would pass the budget and that Fraser would advise an election at the earliest practical date.

Fraser was a cautious, even timid, man and a sophisticated student of public opinion; it was not in his nature to divide the nation deliberately. However, once the budget had been blocked there was no politically easy way to turn back. Although the events were widely referred to as a 'Constitutional crisis', they were nothing of the sort. That the Constitutional uncertainty was resolved by an election without even serious fears of bloodshed demonstrated inherent Constitutional strength and social cohesion that any nation might envy. Nevertheless, a significant minority of Australians believed that Whitlam and Labor voters had been treated unfairly by the Coalition, the Governor General and the Chief Justice, Sir Garfield Barwick, who had advised Kerr at a critical stage.

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[148] Paul Kelly, *The End of Certainty,* Allen and Unwin, 1992, p52

On the anniversary of the 1975 election I proposed a sarcastic justification by two or three backbenchers of events leading to it and had cleared our intended motion with the Whip. Fraser called me to his office and asked me to desist unless Labor started it. He was not normally averse to using the forms of the House for point scoring but he reasoned with me that to inflame tensions with triumphalism was not in the national interest. Although I had no difficulty accepting his view, I was taken by surprise. He was, of course, correct. However satisfied Fraser may personally have been about the propriety of his own actions, he was concerned about the tension that had resulted.

Three years before, with only a relatively slender majority, Whitlam had claimed a mandate for every element of his platform and, in ordinary circumstances, Fraser's majority would have muted most opposition to his policies. These, like most framed by Oppositions, were a grab-bag of popular measures including many that were inconsistent with the core promises to restore the budget to responsible balance and the economy to health, and to tackle unemployment. They could not have been implemented in their entirety, but the measures essential to the central promises could have been. The circumstances were not, however, ordinary.

Fraser's deep-felt doubt about public acceptance of the legitimacy of his mandate made him reluctant to claim it, especially to curb union power. This left him open to criticism from another quarter. It was widely said that never had a leader squandered a greater mandate.

The forced election could be criticised from three standpoints. Some academic lawyers said that it was not legal but in the face of contrary learned argument and the absence of a High Court challenge that criticism fell away. It was argued that, after 23 years of Coalition rule to 1972 and the failed attempt to change the Government in 1974, it was only fair that Whitlam see out his term. Finally, people disappointed with Fraser's inaction argued that justification for blocking supply could be found only in a considerable improvement in the quality of Government. There was quite a deal of argument about whether Bill Hayden, Whitlam's third Treasurer, could have induced his colleagues to govern more responsibly.

The Coalition won another handsome majority in 1977. With that win Fraser had no excuse for not tackling the hard issues. The IPA had for many years been ineffective and the CIS was then only beginning. Australia was, for that reason and others, not as well served as the UK with the ideas needed to address the economic malaise. The parliamentary Dries did not begin to coalesce until 1978 but during 1976, 77 and 78 Fraser had much the effect upon them that Heath had had upon Dries in the UK Parliament – their ultimate determinationhad roots in their disappointment.

Prepayment of Medicare Obligations

At 30 June 1976, the Fraser Government prepaid $200 million in health grants to the States. This had the effect of making the last Labor (Hayden) budget look worse than it was and its own first budget look better. I interpreted this action as moral weakness. It was perhaps when I first realised that I might not always be prepared to be loyal division-fodder.

17.5% devaluation

In its first year the Fraser Government devalued the Australian dollar by 17.5%. It leaked that the extent of the devaluation had been against Treasury advice and had been encouraged by the Country Party.[149] Some MPs who became Dries, remembering the damage done to the economy by the refusal to up-value in 1971-72 and the malign influence of the Country Party then, began to ask if there was not a better way.

It was not found with the crawling peg or 'dirty float' managed by a subcommittee of Cabinet that met periodically to set the value of the currency until it met again. The Government almost immediately up-valued by 2.5%. Most countries were floating by then and, at the time, I saw 'the peg' as a small step toward the desirable end of a floating currency which would not be influenced by the prejudices and short-term whims of members of the Cabinet – Goodness knows why! There was corridor talk of the consequences and requirements of a regime that permitted all currencies to compete, as the US dollar competed with the domestic currencies in some Latin American countries. As policy this was not on but, as kittens play tag and tumble before they can catch rats, we played with ideas relevant to our calling, increasing our knowledge and mental agility.

Bert Kelly prevailed upon the backbench Treasury Committee to invite an academic economist to explain the relationships between protection and the exchange rate. It now seems obvious that import barriers raise the value of the currency, spreading the cost of the barriers to producers of all traded goods. Economists may chuckle, but at the time the obvious seemed less so.

A wage and prices freeze was seriously considered during 1976. I took the idea seriously enough to request briefings by Canadian officials upon that country's experience. Not many Wets are today so wet! Initially it was wisely rejected by the Cabinet but Fraser and Lynch reversed the decision at a Premiers' Conference when the Victorian Premier, Rupert Hamer, who was notorious for his economic simple-mindedness, declared his support for a freeze from the steps of Parliament House on the way into the meeting. The job of running it was given to John Howard, then a junior minister of slight experience.[150] It collapsed when the Arbitration Commission ignored it.

Rubbery figures and the Lynch sacking

The 1977 budget promised substantial tax cuts that were abandoned when the election was out of the way. The budget estimates themselves were unsatisfactory. In the late stages of their development expenditure estimates from the Department of Prime Minister and Cabinet had been adopted in preference to the more pessimistic estimates of Treasury. Phil Lynch, the Treasurer, conceded to the Press Club that the figures were 'a bit rubbery' and 'rubbery figures' entered the language.

During the Federal following election campaign Lynch was accused in the Victorian Parliament of profiting from his position of authority in relation to a speculative land

[149] Harry Knight, the Governor of the Reserve Bank, had said in the Cabinet Room that 17.5% would certainly prevent further speculation. He probably meant that it would overkill the problem and the Government went for overkill.
[150] David Barnett, John Howard, Viking Press, 1997, p 49

purchase at Stumpy Gully on the Mornington Peninsula in his electorate. Fraser forced him to stand down from the Ministry, in effect sacking him. Lynch was bed-ridden at the time and instead of delivering the bad news himself Fraser sent Peter Nixon. Fraser appointed John Howard to the Treasury – a huge promotion for the young and ambitious Howard.

That Fraser should, during the heat of the campaign, have taken precipitous action against Lynch was entirely reasonable but he continued to pursue him after the election had been won and that seemed vindictive and motivated by the rubbery figures admission. After the election I was involved with Fred Chaney in a partially successful attempt to rescue Lynch during which I had the opportunity to go through his financial affairs. I could detect no impropriety. Lynch was rescued as Deputy Leader but lost the Treasury to become Minister for Industry and Commerce.

Howard, putting personal ambition aside, volunteered in strong terms that his legal experience informed him that Lynch's transactions were normal commercial deals. People closer to Fraser than I was tell me that Fraser really believed Phil had behaved improperly. That was not, however, my belief then or for long after. The affair influenced me in two ways: first it reduced my respect for Fraser so that I was later more willing than I would otherwise have been to attribute base motives to him and it enhanced my respect for John Howard. Such are the apparently irrelevant matters that will sometimes influence future events.

Woodsreef

The second Fraser Government came forward with an outrageous plan to provide a taxpayer subsidy to one narrowly-owned enterprise in an electorate held by the National Country Party – the Woodsreef asbestos mine. Then, during August 1980, the Government gave this mine a further million dollars, which Fraser justified in personal conversation as necessary because of NCP Deputy-Leader Ian Sinclair's personal troubles![151]

The Government was applying public moneys to private ends and that seemed to me to be inexcusable by the same criterion that WA Inc. was later inexcusable. I thought such behaviour was a form of theft involving breach of trust. I confess, however, that my colleagues did not seem either as surprised or cranky as I was. So long as Governments did not too much deplete the Treasury, they were entitled to give favours to their mates, an attitude that I think sits oddly with the brouhaha that follows Ministers' failures to declare interests accurately or the theft of relatively small sums of over-claimed travel allowance. I opposed the measures, and even made a sarcastic little speech in the House, but without effect. The Opposition was amused but not interested.

How the Parliamentary Dries Operated

[151] My diary, 28 August 1980. The Opposition was accusing Sinclair of illegally benefiting from his father's estate. The accusation did not seem to me to have much substance.

Toward the end of 1979, five dry MHRs[152] used the adjournment debates to discuss 'The economic situation and policy options'. The speeches were distributed and resulted in opportunities to address CEDA in Melbourne[153] and Sydney. The businessmen, particularly those in Melbourne, wanted protection from competition for themselves but, nevertheless, opposed the anti-competitive habits of trade unions. From then until the change of Government in 1983 several Dries were given other opportunities to do joint acts for CEDA. Sometimes our arguments were competently opposed. More often we were amazed how little the businessmen understood or cared to understand.[154]

On one occasion the Chamber of Manufactures briefed a backbench committee with an expensive shopping list of demands. When I asked its principal spokesman how he expected the Government to finance it, he told me that that was for the politicians to work out. A union delegation would not have come to Parliament so ill prepared. Not all of the beggars were from business: the State Governments were not much less demanding and much more competent in the pressure they applied.

Fraser and the majority of the Cabinet who supported him were no doubt concerned that a disenchanted backbench faction might fall in with Andrew Peacock's leadership ambitions. The Governor-General's speech to open the new Parliament after the 1980 election promised that the Government would better explain its philosophies and the reasons behind policies to strengthen the economy. The Parliamentary Dries seized upon it, praising the Government extravagantly for its courage as they spelt out the 'necessary' implications in terms of less regulation and the sale of Government assets of its various vaguely-expressed undertakings. The Prime Minister did not again on the same scale as that Governor General's speech again try to present himself as 'dry'.

All Fraser's speeches were read for signs of dryness. We joked that their quality varied directly with their distance from Melbourne. The three most worth quoting were delivered in Manila, Lusaka, and North Carolina. During a meeting about protection of the Textiles, Clothing and Footwear industry in April 1980 Fraser told several WA members that we should not take any notice of what he said when overseas and that, in any case, Asian leaders were not concerned about Australian tariffs. Regarding the latter, Peter Sim, a WA Senator who specialised in foreign affairs, told him fairly bluntly that the Asian leaders were indeed concerned. Later, at the Delhi Regional Commonwealth Heads of Government meeting, Lee Kuan Yew confirmed Sim's contention.

When the Parliamentary Dries clashed with Ian Sinclair, who had been publicly critical of calls to raise interest rates, we had the satisfaction of the Government being forced to raise them shortly thereafter. The Dries had initiated a party-room debate on the direction of economic policy. When the first three speakers all pointed to the need to raise interest rates Fraser gagged the debate until after the coming Queensland election (and until he could organise his supporters). I objected that going quiet was

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[152] On this occasion Murray Sainsbury, Ross Mclean, Jim Short, Jim Carlton and myself.
[153] My diary, 5 February 1980
[154] ibid, 29 and 30 June 1982

one thing but Sinclair espousing nonsense was another.[155] After the election the debate was continued. By then the Dries too had organised their speakers to cover the range of topics and to demonstrate their widening support. Howard summed up on behalf the Government with consistently sound economic arguments. We thought we were having a good day, but that afternoon the Government announced its intention to reject for a further three years the IAC recommendations for reform of motor industry protection.[156]

It was at about this time that Jim Carlton dubbed Fraser, Anthony, Sinclair and Nixon, 'the young old men of politics'.

In December 1980 Paul Kelly and Deborah Snow wrote:

> There is a new force in the Liberal Party, conceived in monetarist economic theory, nurtured by Malcolm Fraser's lapses from his own ideology, and given fresh impetus by the current dilemmas facing the Government.
>
> The force is strictly light artillery in traditional Liberal Party terms: a new push from the Coalition backbench. Yet it is likely to have a far-reaching impact on the course of Government policy over the life of the three-year Parliament.
>
> This is because it stands for a set of ideas.

Strictly speaking the dry arguments, except as they applied to inflation, were not conceived in monetarist terms. Nevertheless, for the moment, the dry cause had gained the attention of the Government and the media and was 'on a roll'.

The Dries in Parliament, however, did not have the capacity to remain on top of the whole range of issues and were at an inherent disadvantage reacting to them as they arose. Peter Shack suggested to Jim Carlton, Murray Sainsbury, Brian Buckley – a member of Phil Lynch's staff who attended several of the Dries' tactics meetings – and to me, that we should concentrate on selected issues to demonstrate underlying principles. He argued that the Two Airlines Agreement that was then due for renewal would provide an ideal vehicle. The issue was big enough to be worth the effort and could deliver lessons relevant to other sectors.

Meetings like this were most often held in Jim Carlton's office on Wednesday mornings before joint party meetings. (His office was conveniently situated, was often sunny, was a little larger than most, and Carlton had a stock of good-quality tea.) One of us would come via the Whip's office, collecting a copy of the party-room agenda. We were becoming more sophisticated in several little ways. By not going into the party room unaware of the agenda, we could think about and discuss our reactions to wet proposals. By not sitting together, we looked less like the minority rump that we were. By not all rising together when an item was called on, we were able to counter what we believed was the Prime Minister's tactic of calling his critics first and those most likely to rebut the criticism later. We vowed never to let each other be seen to lack support when attacked by Wets or ministers. I remember well my own appreciation when, as I sat down having debated some long-forgotten issue on my

[155] My diary, 26 November 1980
[156] ibid, 3 December 1980

own, Jim Carlton interjecting 'He's right you know, Malcolm'. We could sometimes get an indication of how the Cabinet debate had gone by watching Reg Withers who sat just behind the PM. When Withers rolled his eyes toward the ceiling we took that as an indication that a Minister was being disingenuous.

We discussed issues among ourselves, increasing our understanding, tightening our arguments and identifying sources of technical advice. We also discussed tactics – when to go to the media; when to take an issue into the Parliament; which ministers were amenable to persuasion; when it was fair or not fair to embarrass them; what arguments would persuade rather than merely annoy; and so on. We used the Parliament's internal mail to bring arguments by organisations such as Syntec (an economics newsletter) to other MPs' attention. We relied heavily on the Parliament's excellent library and research service. During one 12-month period only Bill Hayden, the Leader of the Opposition, had made greater call upon it than I had.

We were appealing over the heads of our colleagues to public opinion. However, we were very careful to observe the rules of our two parties, not betraying confidences, accepting our many party-room defeats with grace and not resorting to malice. Our campaign could not further our own careers. It is beyond reasonable dispute that during the following nearly three years, despite causing difficulties for the Government and reducing our colleagues' chances of holding their seats, we retained their friendship. This was remarkable and is something of which all of us were justifiably proud. I recall only one sustained lecture on my political behaviour from another backbencher. Senator Shirley Walters delivered it in the most civil manner. At this distance the thought is amusing to look back upon, but I am sure that most of our colleagues could not bring themselves to believe that winning the next election had become for the hard-core Dries a matter of secondary importance. Although I speculated that a change of Government might be in the national interest privately, I did not say that publicly. How much it was to prove so, I had not guessed.

Parts of two entries from my diary illustrate the difficulty that maintaining confidences posed:

> Monday 13 [of April 1981]
> Sent Fraser a telegram over several signatures protesting Anthony's Echuca speech. Issue being Anthony's continuing departures from the doctrine of collective responsibility.
>
> Tuesday 14
> Schneider [Bureau chief for *The Australian*] rang. He had intimate knowledge of yesterday's telegram and of our letter to Fraser accompanying the table of progress with the airline issue. He said 30 signatures to which I responded 21, which was careless of me. Such is the way they put a story together.
>
> Peter Shack rang me about 6PM very worried that the press had the telegram. He said that he had been assured by … that the leak did not come from him. Peter believes Fraser leaked it to discredit us. (It could also strengthen his hand against Anthony if he really does want to stop him breaking ranks.) I don't know, Schneider could have dug it out piecemeal.

We often believed that the Government had leaked deliberately but it was impossible to prove. Once when I complained to Fred Chaney that 'Government by leak was wrong' he accused me of 'backgrounding' press. I explained that I used the press only on the record.[157] He may have believed me but leaking was so habitual to some of his ministerial colleagues that they would not have done so.

After the 1980 election when the Dries had become an identifiable group with identifiable goals it became possible to assemble meetings of 'economic literates' from among the backbench. These were not the sort of meetings that Governments welcome but were an activity that so obviously fell within MPs' responsibilities that no Minister dared be heard protesting.

I prepared a background paper that I headed 'The Immediate Future' for consideration at one such meeting. Twenty-odd turned up. Although Senator John Watson disagreed with what I had written on protection and Michael Baume disagreed on taxation, there was remarkable unanimity. Both were howled down. Baume also attacked the political unwisdom of committing our disagreements to paper. I could not quarrel, but he seemed not to believe that I could regard getting the policy right more important than any votes lost. Nevertheless, despite there being 30 to 40 copies, it did not leak. Since Peacock was unwilling to throw his lot in with the Dries, it was in nobody's interest to leak it.

In due course I made the opportunity to discuss the background paper with the Prime Minister, who was upset by my assertion that the Government had 'lost its way'. I told him that I intended to use the techniques of the Tasmanians, who were notorious for blackmailing the Government and to whom I believed the Government was far too accommodating, to achieve the opposite ends unless dissuaded by argument. He told me that I was likely to put the ALP in office. A strained meeting![158]

Once the Dries in Parliament 'came out', good one-to-one advice on any issue was plentiful. Both solicited and unsolicited, it came from officials of the Treasury, Department of Finance, the Social Welfare Policy Secretariat, the Reserve Bank, the Industry Commission, some business economists and several academics. The officials did not tell us State secrets but, if a matter was on the public record, we were sometimes alerted to it. More importantly, they would patiently explain principle and fact to us until we understood. Dr Peter Forsyth, who with his colleague Dr R.D. Hocking had published extensively on Australian airlines, provided invaluable technical advice throughout the struggle to deregulate domestic air services. Professor Wolfgang Kasper was always available and always helpful. No advice was more helpful, blunt or memorably expressed than that of Austin Holmes, head of the research department at the Reserve Bank.

The Crossroads meeting

During August 1980, the key Parliamentary Dries began exploring the opportunities for support. I asked the library to provide me with information on the groups in the UK parliament. We agreed to try to organise a meeting of like minds from around Australia and I rang Greg Lindsay at the CIS to discuss participants.

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[157] My diary, 25 April 1981

[158] My diary, 27 November 1980

Jim Carlton proposed a meeting at the Union Club in Sydney ostensibly to discuss *Australia at the Crossroads.* The group became the 'Crossroads Group'. It was the most significant with which dry MPs were to be associated. It was important that, should its existence become public knowledge, we should be able to demonstrate that it was not a cabal to unseat Fraser. Carlton's strategy was brilliant. In the event only Michelle Grattan of *The Age* became aware of it, asking me about a meeting in Sydney. I, no doubt disingenuously, fobbed her off with a story about studying the *Crossroads* book and she, not appreciating its significance or knowing who was to attend, did not follow up her lead.[159] Had she done so, we would have faced a covey of press every time we left the building and some of our advisers would have taken fright.

The group met over the weekend of 14/15 February 1981. I would not have liked to waste the time of those people. The mining industry people seemed terrified that the Government would get to hear of their cooperation with us but they had, despite their fears, come.

The future organisation of the campaign was left largely to the politicians present which seems a lame result yet, had the meeting not occurred, it is doubtful that the dry campaign would have proceeded as it did. It achieved these things:

- It spelt out the national economic problem for several people who were focussed on only part of it.
- It placed this problem in a political context and identified the means that the think tanks had long before come to accept by which lasting policy gains can be achieved.
- It established a network that included people of standing which extended into State and Federal Parliaments, business, the finance sector including the Reserve Bank, agriculture, the think tanks, academia and the churches.
- It gave the parliamentary Dries – and I suspect some others – confidence that they were not, as they were so often told, simply wrong.
- It engendered that spirit of camaraderie that is invaluable when under sustained attack. Nobody in the network now need feel alone.
- It painted for all of us what Keating was to call 'the big picture'. Henceforth, battles and skirmishes were part of a campaign.

Several more *Crossroads* meetings were held and details of tactics were refined at these but the first achieved most that was necessary.

The Society of Modest Members

The decision to set up a club of market-favouring Liberal and National Country Party MPs was a Crossroads outcome. Jim Carlton suggested the *Society of Modest Members* with Bert Kelly as its patron. (*The Modest Member* had been Kelly's by-line.) Its purpose was to facilitate communication, especially between Dries within the Parliaments of the States, Territories and the Commonwealth and above all to give each other encouragement when the path might seem too steep and too lonely. It began with over 100 members – a few of them quite wet – in August 1981 at a

[159] ibid, 12 February 1981

meeting in the Victorian Parliament House.[160] It has had some memorable meetings and continues to this day. Like many such organisations its success has been due largely to one individual, in this case, Len Bosman, the one-time Member for St. George in the Federal Parliament.

My Blue Book
Late in 1981 Fraser, remonstrating with me about a speech I had made that was critical of the Government's lack of direction, asked me to set down a list of goals to be achieved by 2000. In February 1982 I released my *Blue Book* (described in Chapter 4) gaining a lot of press attention. It was by implication highly critical of Government policy but I could deflect criticism from myself with the fact that Fraser had asked me to write it. He possibly had not anticipated that I would. It gained public attention at a time when my influence in the Coalition was waning. Nearly all its goals were to be achieved well before 2000.

Like all campaigns, our Good Fight was made up of battles won or lost that gained or lost strategic advantage and used up opponents' or our own resources. I will consider only the more important.

Budgets, Money Supply and Inflation
From when McMahon came to office in 1971 until Fraser lost office in 1983 Government consumption increased 1.75 times faster than the gross domestic product. Although all Governments try to time policy announcements and actions to the electoral cycle, macro-economic policy in the run-down to the 1977 election was exceptionally bad. Fraser announced income-tax cuts in the 1977 budget to take effect from 1 February 1978. The effect upon the 1977 budget was therefore only 5/12 of the full year effect, preserving only the impression of fiscal responsibility. Although the effects of policy changes upon the 'out years' were not in those days published, the 'full year' effect of what had been announced did not escape the notice of at least some of his backbench.

Budget discipline permits interest rates at modestly lower levels than would otherwise be responsible but Prime Ministers cannot simply reduce them without increasing inflation and putting the exchange rate under downward pressure. Fraser's promise during the 1977 election campaign that they would fall by 2% during 1978 was among his more irresponsible undertakings. Howard described it merely as 'unnecessary'.[161] Throughout the Fraser era the Government was to rely on macro-economic policy – monetary restraint and slow reduction of the budget deficit by increasing taxation. Alone macro-economic fiddling, even if it had been done with consistency, offered a cheerless prospect and unemployment rose. Nothing significant was done to make the supply side of the economy more elastic.

During 1978 the A$ was under continual pressure. To maintain reserves the Government was forced to borrow heavily overseas. Inflation was around 9% per annum, a dreadful figure by today's standards but down from the 13.5% that the Coalition had inherited in 1975.[162] Fraser and Anthony brought to politics their

[160] My diary, 14 August 1981
[161] David Barnett, *John Howard*, Viking Press, 1997, p 71
[162] ibid, p 71

farmers' attitudes to banks. The Government leant on the trading banks which did reduce rates by 0.5%, and I was to overhear Fraser ticking off the Governor of the Reserve Bank. To my surprise, he had taken a telephone call while I was in the room.

The public-sector borrowing requirement had to be reduced and to that end the tax cuts delivered prior to the election were reversed. David Barnett quotes Howard's recollection:

> We had a huge fiscal problem that couldn't be fixed without spending cuts which no Government could find easy to undertake, and revenue measures that flew completely in the face of what we had taken to the people in 1977. It was one thing to hold tax at a level where it had been, but it was entirely another thing to go down, and then immediately to go back to where it was. That was essentially what we did.

The tax cuts and the interest rate promise had been bizarre at an election at which the Government was not under serious threat.

Poor productivity was the economy's underlying problem that, until addressed, would negate other fixes. By 1978 a substantial bloc of MPs understood this but not, it seemed, the Cabinet. Cabinet seemed reluctant to accept that stagnation and inflation could be addressed only by addressing the underlying structural weaknesses inherent in protecting industry from both international and domestic competition and in the industrial relations system. It was to be a further nine years before the Hawke Governments were to address the first and a further twenty years until the Howard Governments began to address the second.

My diary notes tell something of the attitudes and approach of the Dries:

6 March 1979:

> Discussion with P.M. civil but strained. Fraser asserted that: He would not abandon his economic policy. That he had evidence in writing that he was advised by Reserve Bank and Treasury to pitch interest rates as he did over late '78 to mid January. That he would achieve the effective abandonment of Anthony's export guidelines. That the Fed. Budget deficit was significant in a way that total public sector deficit was not. He did not say how. That I was too cynical. Phil Lynch later said that he agreed with the PM.

9 March:

> Rang Austin Holmes who is still very concerned about the money supply and inflation. He asserted that Fraser's claim that he was advised to hold interest rates at the low levels over Christmas was 'a bare-faced lie'.

19 March:

> Further 'phone conversation with Holmes who said he had no doubt that a piece of paper existed somewhere that would enable Fraser to claim he was advised to force rates down. As RB and Treasury lost the fight they retreated to various middle grounds.

11April:

> Alan Wood of Syntec slated govt. money market policy. I rang Howard who admitted to being 'very worried' – The govt's (Fraser's) incompetence in this matter will undo much of the gains that have been made in the last three years.

12 April:

> Rang Lynch with a piece of my mind on money supply management – he assured me the problem was being tackled.[163]

My superiors were becoming sick of me but they should have appreciated my abusing them to their faces rather than backgrounding the media. I was also trading on the fact that I had assisted Lynch at the time of the Stumpy Gully affair, using him as a sounding board, a source of information and as a means of getting my views to the Government. My behaviour with Lynch might, in the circumstances, be seen as poor form. I justified it to myself on three grounds: opportunities to be influential were very limited, whatever I was doing I was certainly not improving my own prospects, and I believed I was serving the national interest.

A year on, however, the Government still did not have the money supply under control. During 1980 an inter-departmental committee drawn from Treasury, Prime Minister and Cabinet, Finance and the Reserve Bank, concerned with among other things managing macro-economic policy in a sluggish economy, had alerted the Government to the urgency of decisive action to reduce protection.[164] In July I noted:

> M3 announced to be 13% up. If we can't manage the unions, won't manage our budgets and borrowings, are too timid to reduce trade barriers, then money is about the only thing left for us to do well[165].

By 1982, Australian inflation was again above that of the OECD as a whole. In the course of a conversation with Fraser in December of 1980 he blamed the Reserve Bank for mismanagement of the money supply.[166]

David Barnett writes that Fraser argued that nobody until 1980 was condemning his Government for not reducing the deficit more rapidly. That was not the case: Treasury at least was critical, so were some of his backbench and some business and academic economists. However, it is true that in the Party Room Dries found themselves often defending his budgets against demands for greater expenditure – and not only from demands made by the backbench. When the Tasmanian Member, Bruce Goodluck, threatened to introduce a Bill to return to pension indexation I took him on in the Party Room. With more than some relish, I also seized the opportunity to give Doug Anthony a serve, likening his behaviour in advocating that farmers be exempted from the cost of fuel import parity pricing to Goodluck's behaviour. When Ministers had such scant respect for the integrity of the budget, I argued, what should they expect of the backbench? Howard congratulated me after the meeting but pension indexation was soon to be re-introduced, although not in that budget. (In inflationary times, budgetary aggregates aside, indexation is in itself good policy.) As late as 1979 I was to record in my diary that I had just been accused by a Wet of being Fraser's lackey because of my support for the integrity of the budget.

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[163] Entries from my diary have here and elsewhere have had the punctuation clarified and spelling corrected.
[164] David Barnett, *John Howard*, Viking Press, 1997, p 152
[165] My diary, 25 July 1980
[166] ibid, 3 December 1980

After the House had risen for the Christmas break in 1981 a special party meeting was called to defend the budget against backbench pressure to change some sales tax provisions. The Dries said nothing. An aggrieved Peter Nixon asked me 'Where were the Dries'. I told him that after Cabinet's betrayal over CYSS[167] funding when the Government had given in to backbench pressure despite our support 'they could sweat on this one'. We had been let down by the Government too often and our wrath was affecting our judgement. We were being churlish!

The 1977 budget had included several items that were quickly reversed. It became known as the Loose Leaf Budget. One of these items was a tax affecting among other things wheel chairs. The surgeon who had amputated my arm led a demonstration by people in wheel-chairs to the front of parliament house. I decided that in the circumstances it was my job to defend the budget. The people in the wheel-chairs gave as good as they got and obviously enjoyed the fray but arguing with people in wheel chairs is difficult public relations. I at least could point out to the media that I was familiar with the cost of artificial limbs. While I was addressing the paraplegics, the Government reversed its decision. I bought my surgeon, who was naturally pleased with himself and highly amused, a coffee and told him he had done more damage to responsible fiscal management than he would ever understand. My respect for the Government acquired yet another dent. The discarded loose leaves were not big items but, once a Government is seen to back down to vested interests, even to those in wheel chairs, its capacity to take any tough decisions is compromised. Later, when the Government was in decline, some backbenchers pretended to adopt 'the fortnight rule', namely, that if the Government could stay of one mind for two weeks only then could one afford to support it.

Hawke's Finance Minister Peter Walsh much later was to write in *Confessions of a Failed Finance Minister*:

> Governments should never rescind or modify a decision unless it is unambiguously wrong and then they should do so as quickly as possible. Changing a decision in response to prolonged pressure group lobbying, special pleading, rent-seeking, or political threats sends the worst possible message – no decision should ever be regarded as permanent, no issue should ever be allowed to die. Rent-seekers of the world intensify your efforts. If a decision is only marginally wrong, it should be quietly modified at a much later time after the rent-seekers and other parasites have faded away.[168]

Walsh is unambiguously correct.

Dry MPs sometimes faced difficulties in their own electorates. It is not uncommon for constituents to demand public expenditures and other policies that Governments ought not to countenance. The usual practice is for the Member to take these requests to the Government recommending generous action. In due course the relevant Minister replies in writing professing the Government's regret that nothing can be done in spite of the efforts of the local member and the member passes the correspondence to his constituents. To preserve their credibility, Dries had to be less pusillanimous. If we had not been prepared to stand up to our own constituencies, our influence with the

[167] Commonwealth Youth Support Scheme

[168] Peter Walsh, *Confessions of a Failed Finance Minister*, Random House, 1995 p 114

Government and others would have been prejudiced. The textile lobby, for instance, would probably have used any inconsistency against us – besides we were not without honour. Four issues were to trouble me in my electorate. These were the superphosphate bounty, which has since been repealed; the Agaton water reticulation scheme and a TV transmitter at Bencubbin, which never did proceed; and that hardy perennial, interest rates, which have been further deregulated. When some of my constituents complained that they were poorly represented I remember quoting Edmund Burke's famous address to the electors of Bristol: 'Parliament is not a congress of ambassadors from different and hostile interests … parliament is a deliberative assembly of one nation, with one interest, that of the whole, where not local purposes, not local prejudices ought to guide, but the general good … etc.'. It did me about as much good as it had done Burke. On the other hand, I do not think my attitude cost me net votes.

The Government set up an expenditure review committee, dubbed the 'The Razor Gang', to identify wasteful expenditure but it ran away from politically difficult cuts and padded its reports with minor changes and changes that were to happen anyway. The 1979 budget was, nevertheless, by most accounts an honest document and the best that the Fraser Governments brought down. John Stone was to remind me of the favourable effect it had had on investment markets both here and overseas.[169] Monetary management during the latter half of 1979 had also seemed better.

In 1980, however, as though a budget's pressure on the domestic money markets was its principal concern, the Government boasted about a tiny domestic surplus while budgeting a $1.5 billion deficit over all. Dries asked if foreign debt might not prove inconvenient in the event of war or depression and my diary for 27 August 1980, reads:

> Stuart Simson [a journalist with the *Australian Financial Review*] is writing a story to the effect that the budget has abandoned Fraserism and the backbench is upset about the change of course. He is wrong but only in that we were never on course. I think it is good news for Aust. that a significant number perhaps even a majority of the backbench in an election year have identified the sham of this budget.

During April of 1981 there was a period of rapid capital inflow and doubt that the Cabinet, always beholden to National Country Party pressure, would act appropriately by up-valuing the currency – shades of 1971. I attempted what I described as a little 'blackmail' – attend to the problem or I would organise yet another backbench ruckus. There is no evidence I had any influence.

Before the 1981 budget I began a practice that for several years somebody would continue with growing sophistication, namely, the specification of an appropriate bottom line and the cuts and elimination of tax breaks needed to achieve it. By later standards, my 1981 recommendations were timid. I called for means or income tested welfare, treating the unemployment benefit as a loan to people who enjoyed substantial incomes for the year as a whole, a cut of $200 million in housing programs by concentrating them upon the poor, an end to plans for a new Parliament house, tourism grants, multicultural broadcasting, the fuel freight subsidy and the

[169] My diary, 4 July 1980

superphosphate bounty.[170] It was dry practice to include in any list an item that would adversely affect one's own vote, pocket or both. I benefited financially and electorally from the fuel freight subsidy and the super bounty. The Fraser budgets to 1981 had improved the budget bottom lines but only by increasing taxation. The '81 budget was a wasted opportunity and I said so publicly but Max Walsh, a senior and respected journalist, nevertheless, 'took me apart' because I, as 'chief Dry', was not critical enough.[171]

Despite fiscal ineptitude being among the principal reasons advanced for throwing the Whitlam Government out, the Fraser Government's budget management was lax. If allowance is made for the devious prepayment of the Medicare levy to the States, seven of Fraser's eight budgets increased real spending. The exception was the 1979-80 budget that reduced real outlays, albeit by only 0.07%. Fraser's final 1982-83 budget was to drive outlays to an all-time record proportion of GDP.[172]

By any measure the Fraser Governments' fiscal discipline was inadequate and there was no reasonable excuse for the 1982-83 budget. I felt justified in almost immediately condemning it in a speech I made in Sydney. In view of the almost unprecedented nature of what I had done and the importance of the budget not just to the economy but to the Government's electoral prospects, I received remarkably little press coverage. I guess I was either not believed, or dismissed as a grandstanding disgruntled backbencher of which there were some at the time. I was to be vindicated when the new Labor Government announced the size of the impending deficit.

Fraser reduced the Commonwealth deficit primarily by increasing taxes. Nevertheless, one important qualification to the bottom lines of Fraser's budgets should be made. For some purposes, tax deductions and rebates may be counted as 'tax expenditures'[173] and reasonably added to budget outlays. In 1977-78, Fraser abolished these for dependent children replacing them with the Family Allowance. This change better directed welfare to the poor and opened the way for a campaign to means test family allowances. Therefore, most Dries approved of the policy change. Anxious to get public-sector expenditure back towards pre-Whitlam proportions of GDP, we did not often concede that the policy change had made the budgets look even less responsible than in fact they were.

In the wake of the second (1981) oil price shock and widespread, if misguided, fears that the world was facing an energy crisis, the Government had decided to price domestic oil production at import parity. (The crisis did not eventuate. How quickly we forget recent rounds of scare mongering!) In the case of 'new oil', the benefit of the hike was to go to oil producers to encourage exploration and development. In the case of 'old oil', the hike was treated as economic rent and therefore a proper target for taxation. Allowing the market to determine the price of oil was a significant efficiency. Although scant heed of the political lesson was taken when it came to other potential reforms, the import-parity pricing policy demonstrated that tough but

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[170] *The Australian*, 11 August 1981
[171] My diary, 18 August 1981
[172] Peter Walsh, *Confessions of a failed Finance Minister*, Random House, 1995, p 37
[173] I don't like the term because it implies that the Government owns the money but it is established in the jargon of taxation.

principled measures could be sold politically. Doug Anthony came round to supporting the policy – so much so that Jim Carlton quipped that his wooing of the bush on this issue left 'Casanova in the shade'.[174]

The policy had a big downside, however. It gave a spendthrift Government access to easy money – $2.3 billion in 1979-80 and a projected $3.1 billion in 1980-81.[175] The windfall was used to buy votes by, among other less expensive things, abolishing the means testing of old age pensions and estate duty. Inheritance taxes, as imposed, were inefficient, uncertain, lumpy and therefore unfair. They needed to be reformed but not abolished.

The Government excluded motor vehicle LPG from the excise on two grounds. It was less polluting than petrol and Australia should strive for self-reliance in petroleum products. As Australia exported LPG and imported crude the policy tended toward self-reliance but how McEwenist autarchy might benefit Australians was never explained.

Tax Reform

Too much was, and despite the GST still is, expected of the income tax base. It defies adequate definition and therefore offers more opportunities for unfair and economically-costly tax avoidance than its alternatives.

Howard began exploring the introduction of a more comprehensive indirect tax base to replace the wholesale sales tax during 1978. Although the 1975 Asprey Committee Report upon taxation policy had recommended this change, it was bitterly opposed by retail traders. Both Cabinet and the backbench took fright and in January of the following year Howard was forced to call his attempted reform off. He again tried unsuccessfully in 1981 when Cabinet refused to extend the wholesale sales tax to services.

As the Government plugged tax loopholes, lawyers and accountants discovered more of them. It sometimes ran into bitter opposition from interests that had discovered a means of paying less tax. A common and effective means was to provide employees with housing at no or only nominal cost. When the Government tried to tax these benefits as income, the mining unions at the Blackwater coal deposit struck. The Queensland Government predictably but dishonourably backed the miners. The concentrated interest prevailed over the dispersed public interest and the Federal Government backed off. Such was the fury that, on that occasion, the Government had my sympathy.

As conspicuous Government waste increased, the public's acceptance of the obligation to pay tax decreased. Tax avoidance was a profitable, intellectually-challenging pastime and increasingly outlandish schemes were developed. One group of these called for the illegal disposal of company records – 'sending them to the bottom of the harbour'. Most Australian taxpayers avoided tax but most drew personal lines that precluded their adopting the more elaborate and effective schemes. The revenues were under serious threat and a tax that some wealthy people avoided was

[174] Jim Carlton's Blue Book, p 66 and *Australian Business*, 21 January, 1982
[175] Peter Walsh, *Confessions of a failed Finance Minister*, Random House, 1995, p 37

obviously unfair. In its final months the Fraser Government employed 'retrospective legislation' to recover the so-called bottom of the harbour tax liabilities. This action was to divide the parliamentary Dries. Some believed that public administration could not live with retrospective law, others that it could not live with a patently unfair tax system. I am to this day teased for my support of the Government. Each accused the other of being 'wet'.

The Campbell Report

In January 1979 Howard announced a committee under Sir Keith Campbell to recommend financial reform. Governments use inquiries to avoid action, but a reform-minded minister can use them to instigate policy change. The Campbell Committee members did not represent established interests. They were concerned with economic efficiency and fair play. They were not charged with reaching consensus but with recommending reform for which there was not yet consensus. They were not intended to get the Government off a political hook but to create one. I doubt the Cabinet would have approved the inquiry, had it appreciated as much. Campbell brought down a principled and cohesive package in line with the practices of other nations for Howard and the Labor Treasurer who followed him, Paul Keating, to champion.

In October 1981 it recommended:

- Removal of controls on the interest rates charged by banks.
- Abolition of controls on bank lending.
- The entry of foreign banks to the Australian market.
- That banks be permitted to pay interest on cheque accounts.
- That banks be permitted to accept interest-bearing deposits of less than 30 days.
- The floating of the Australian dollar.
- That restrictions on the transfer of funds in and out of Australia be lifted.
- That company tax be integrated with personal taxation.
- Removal of the tax concessions available to superannuation funds. (The subject of some heavy lobbying by those opposed.)
- Sale of the Australian Industry Development Corporation, the Primary Industry Bank, and the Housing Loans Insurance Corporation.
- The winding up of the Commonwealth Development Bank.
- The abolition of the requirement that banks, superannuation funds and life offices hold portions of their assets in public securities – the so called 30/20 rule.
- That banking licences become less restrictive.

The Report delighted the Dries, but was surprisingly coolly received by Treasury.[176] It was on the whole however well received, although serious and productive debate ensued concerning the nature and need for prudential control of deposit-accepting institutions, particularly banks.

It was left to Treasurer Keating to implement its major recommendations. Nevertheless, before and after the Campbell Committee reported, Howard, encouraged by support from organisations such as particularly the National Farmers' Federation, began taking steps toward financial market deregulation. He was, with

[176] Minutes of Government Members Treasury Committee, 7 December 1981

some justification, to claim that these made the more substantial deregulation inevitable. It is, however, also true that the irresponsible 1982 budget and irresponsible monetary management was to present the incoming Hawke Government with the crisis from which deregulation was the best way out.

Treasury officers can all add and subtract and they all accept fundamental economic propositions. None is, therefore, truly wet. Nevertheless, in Treasury there are many mansions and the oft-quoted 'Treasury view' is something of a myth. Some Treasury officers, including the Secretary, John Stone, opposed the Campbell recommendation to float the currency. One argument was that dark forces were capable of manipulating the currency of a small country. They sounded suspiciously like Treasury officers protecting their influence, an influence that had on the whole served the nation well.

Having to do something to manage the money supply better and under pressure from John Howard, the Government conceded market forces some modest gains. Among the most important of these was the means by which the Government sold its own securities. In 1979, Commonwealth Bonds were offered to investors continually with the rate varied to meet the market, instead of by periodic loan raisings approved by the Loan Council.[177] The method of selling Treasury Notes was changed to one of periodic tender within an interest-rate band agreed by the Loan Council. The Premiers were unhappy, fearing loss of some their power to influence interest rates for political rather than economic reasons. They were right and that caused Dries no disquiet!

The Wheat Board had received the funds it needed to acquire each year's harvests under the so-called rural credits arrangement with the Government. These credits fed into the money supply. In 1980 the Government compelled the Board to raise from the market $300 million of the something over one billion dollars it needed. The Board, fearing that this might be a first step on the way to deregulation, was most unhappy. It too was right, but again Dries applauded!

During 1978, Howard managed to induce Cabinet to relax the foreign investment guidelines. Among the principal benefits of take-overs is the injection of better management. Significantly, Brian Loton of BHP and Gordon Jackson of CSR thought it might be too easy for foreign companies to take over Australian Companies.[178]

In January 1979, Howard agreed that the Sydney Futures Exchange could trade in currency futures, allowing traders to hedge their foreign currency exposure. By putting paid to the most commonly advanced objection to a floating exchange rate, namely that business could not manage the inherent risks, he had taken a step on the way to a floating dollar.

Late one night in December 1980, he came straight from Cabinet into the Parliament. Speaking from hand-written notes he announced the removal of the ceiling on the interest that trading banks could offer on deposits. This was the key move that made further deregulation inevitable. He also announced the raising of the overdraft rate for

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[177] The Australian Loan Council is a Commonwealth-State Ministerial Council that oversights public- sector borrowings under voluntarily agreed arrangements.
[178] David Barnett, *John Howard*, Viking Press, 1997, p 79

loans below $100,000 by two percentage points; and the raising of the interest charged on housing loans by one percentage point. David Barnett writes that Howard had tried but failed to get the Cabinet to deregulate interest rates. Since the banks could not pay a higher interest than they could receive, business continued to desert the banking sector to the less regulated non-bank financial institutions, creating an influential new lobby for more deregulation – the banks. The young old-men could not then bring themselves to remove the interest rate ceiling. I congratulated Fraser on the improvements. With I believed heavy-handed humour, he told me it was a bad decision because all restrictions should have been lifted.[179]

In 1982 the Commonwealth allowed the State Government electricity authorities to raise funds in the money market, from which none but the dripping wet would have excluded them. This time the Premiers were delighted but the price they paid was to give up their ability to use the Loan Council to control the interest rates of Australian Savings Bonds. Monetary policy was now in the hands of the Commonwealth alone.

Howard allowed the major private banks to merge until there were only three and the Commonwealth Bank. Also in 1982 he permitted authorised dealers in the short-term money market to reduce the proportion of their securities held in Commonwealth paper. These were not major changes. Tony Rutherford, who worked in my office on dry policy, likened them to emptying a full bath with a sponge, but the removal of every drip was counted a gain.

In January 1983, in the dying days of the Fraser Governments, Howard was able to lift the controls on several much used interest rates and to call for applications from foreign banks.

Barnett makes much of Howard's Campbellising by stealth. His account rings true. Nothing dramatic was done but taken together the moves toward freer financial markets were significant and the beginnings of momentous changes.

Nevertheless, not every Government-induced change to the financial markets during the latter Fraser years was dry. Relapsing into the mindless autarchy that had characterised three generations of Country Party thinking, the Government tightened the restrictions on foreign investment in farmland and used the Foreign Investment Review Board to control direct foreign investment rather tightly. The farmland decision was not of itself important but it said a lot about that Cabinet.

Reports and more reports

The Fraser Government's approach to economic reform was akin to St Augustine's to chastity – 'O Lord, Give me chastity and continency but do not give it yet'. The Campbell Report was exceptional among a plethora of reports, some of the others were commissioned in lieu of doing what was already known to be needed. The Government inherited the Asprey Report on taxation, the Green Paper on Agriculture and the Jackson Report on manufacturing. John Howard's failed attempt to take up Asprey's principal recommendation has been discussed above.

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[179] David Barnett, *John Howard*, Viking Press, 1997, p 130; my diary, 2 December 1980.

After the political reaction to the 25% tariff cut, the authors of the Green Paper on Agriculture believed that substantial direct reduction of import barriers was unlikely. Conceding that, they recommended second-best policy. They proposed that rural industries be assisted to offset the disadvantage that tariffs imposed on exporters. Were it not for the cost of administration, the impossibility of writing law to achieve the intended outcome, and the inevitability of huge rorts, equal effective-rate assistance all round, would, after every business had absorbed the costs generated by protecting every other business, protect nobody. It would therefore be economically efficient but pointless and administratively utterly impossible.

The incoming Fraser Government had called for further evidence before tackling such a hot potato as manufacturing protection. In 1977 it tabled its White Paper on Manufacturing Industry. This followed essentially the Jackson majority recommendations – no change in protection policy, rejection of the 'key' industry approach that was a popular current nostrum, and the establishing of industry councils. One member of the Jackson Committee, Alf Rattigan the IAC Chairman, had declined to sign that Report.

It would have required a brave Government to identify only some industries as 'key' so that economic folly was probably never a starter. The industry councils were essentially the corporatist approach that had been pursued in pre-war Italy but, if anyone around the Parliament then used Signor Mussolini's name in the context of Australian industry policy, I don't recall it.

Both Jackson and the White Paper accepted the need for industry policy that would encourage efficiency while avoiding recommending anything, except in the long future, that might achieve it. The Jackson Committee majority had 'discovered' a 'deep seated malaise' and it was asserted that the White Paper was the Government's approach to it. Nevertheless, the Government commissioned yet another group, under Sir John Crawford, to report on structural adjustment. The Crawford Committee did not report until 1979. Like the Jackson Committee, it reported in principle the need for secondary industry to compete in world markets but, nevertheless, recommended that long term protection should not be reduced 'while unemployment remains above, say, 5%'. Twenty-three years later unemployment still exceeded 5%. The Committee suggested the Government instruct the IAC to report on how protection might be reduced. However, even that was more than the Government had the stomach for, so instead it said the means to achieve tariff reduction should not be referred until the general review was completed and instructed the IAC to resume the tariff review, a process that should never have been delayed.

When the Government released its bland response to Crawford, a long day of argument ensued that my diary describes 'as sometimes a little bitter'. It also records that I visited Phil Lynch late at night 'to apologise for giving him a rough time'.[180]

The Government also commissioned the Swanson Report on Trade Practices, Borrie Report on population, Williams Report on education and training, Dix Committee Review of the ABC, Holcroft Report into domestic air travel, Myers Committee of Inquiry into technological change, Fitzgerald Inquiry on immigration, Harries Report

[180] My diary 22 August 1979.

on Australia's relations with the Third World, Davidson Committee inquiry into telecommunications and the inquiry into Australia Post's monopoly status. So many words produced remarkably little action.

Some the words did, however, lift corners of the veil of ignorance. Holcroft identified the cost of domestic airline regulation. Fitzgerald drew attention to the tensions being engendered by multiculturalism. Myers showed that Australian technology was falling behind that of important competitor nations. Harries told us of our need to get with our Asian neighbours. Davidson gave us some idea of the cost of regulated telecommunications and recommended increased competition of 'add on' services.

Commonwealth – State Financial Arrangements

In 1976 Malcolm Fraser had commissioned yet another report, the Bailey Report, upon the subject of the rational division of State/Commonwealth responsibilities in the significant areas of health and welfare. It sunk without trace. Fraser, however, made one commendable attempt to make the State Governments more responsible for their own revenues. In lieu of Financial Assistance Grants, he proposed that the States raise whatever rate of income tax each chose upon a tax base administered by the Commonwealth. Grants Commission procedures for topping up the revenues of the States that enjoyed less revenue-raising capacity or greater expenditure needs, referred to as 'fiscal equalisation', would be retained. His measure was opposed by every State except WA, which did pass the necessary legislation. It was abandoned when the Wran Government of NSW went to an election accusing the Commonwealth of 'double taxation', which of course it was not. The Premiers, more interested in the trappings of power than its substance, were like dogs with a cat up a tree that they had no wish to actually catch. In Canberra and the State capitals the overlap and general muddle in Federal-State relations also suited empire-building bureaucrats and junior ministers who depended upon it for their jobs.

I recalled an occasion when Young Turks on the WA State Council of the Liberal Party had advanced a similar proposal. Sir David Brand, then WA's Premier, had taken me aside to explain that the States rather liked the situation that had the Commonwealth incur the odium of raising taxes and allowed them to blame the Commonwealth for the failure to make expenditures that were not affordable. The fiscal responsibility that they professed to crave was for display only.

Fiscal equalisation, like Commonwealth taxation powers and Financial Assistance Grants, had also shaken down in a manner that suited politicians. When in 1933 Western Australians had carried a referendum to secede from the Commonwealth their case had stated: 'The desire for secession arises mainly because of the crippling effect of the Federal protective tariff on the industries of Western Australia'. Despite carrying the referendum, Western Australians elected an anti-secessionist Labor Government and, as vigorously as the citizens of any State, were soon to defend the Commonwealth in war. The WA Government did not, moreover, press for national free trade, instead it sought tariff autonomy and/or compensation. Above all else it wanted easy revenue and it, therefore, settled for partial public sector compensation for the private sector disability. NSW Premier Jack Lang wrote in his memoirs:

> The wild colonial boys of the West bailed the Commonwealth up and got away with at least some loot.[181]

An EPAC Council paper published in 1991 was to show that in the cases of WA and Queensland the compensation was appreciably less than half the disability.[182] As things stood, fiscal equalisation was part, albeit an unsatisfactory part, of the Federal deal. Easy access to taxpayers' pockets bought off the Governments of the States with export-oriented economies.

This hypocrisy annoyed me and it offered an opportunity to press the case for freer trade. I calculated WA's annual loss and later the State Treasury came up with better figures that indicated that mine were not wildly out. My protests fell on mostly deaf ears. There was no way that the WA MPs would forego the opportunity to make big fellows of themselves at the expense of Victorian and New South Wales tax-payers and their own State's export industries. The 1981 Federal Liberal Council did however reproach Fraser with the way that industry protection penalised the resource-rich States.[183]

Throughout Fraser's Governments, the levels of States Grants were to be constant sources of friction. Arguably the Commonwealth made savings in States Grants that were not matched by reductions to its 'own-purpose' expenditure but the evidence was unclear. It was clear, however, that neither the States nor the Commonwealth had made any serious attempt to return their expenditures to pre-Whitlam shares of GDP.

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[181] JT Lang, *The Great Bust*, Angus & Robertson, Sydney, 1962, p 95

[182] It could be calculated from data in EPAC Council Paper No 36, that at that time protection cost the citizens of Western Australian around $640 million and Queensland around $1000 million annually. This compared with $272 million and $304 million the Governments of those States receive respectively from fiscal equalisation.

[183] *Canberra Times*, 3 June 1981

Chapter 9
The Fraser Years II
The policies, the micro economy and the consequences.

Every Government is a parliament of whores. The trouble is, in a democracy the whores are us.

P.J. O'Rourke

Industrial Relations

Fraser had been elected in 1975 promising to do something about the excessive power of trade unions and unemployment. In the end he did little. His Government, unlike Thatcher's and later Howard's, had no strategy except during a brief period when Ian Viner was the Minister for Industrial Relations.

The Fraser Governments' most notable achievement in the area of industrial relations was by way of the Trade Practices Act. New sections, 45D and 45E, developed by Howard and supported by Fraser, outlawed so-called secondary boycotts by imposing fines for black bans. The restrictions that 45D and E imposed upon unions mirrored those imposed upon corporations for similar commercial behaviour.[184] The outlawing of secondary boycotts had in fact been included in the 1975 Liberal Party platform but I doubt that at that point anyone other than Ian Viner realised the significance of the provision.

During 1981, Viner tried to set up the equivalent of a Campbell Inquiry to look at the industrial relations system. Perhaps because of its experience with Holcroft (below) and Campbell, the Government could not agree on the terms of reference. The employers' peak council industrial advocate, George Polites, and the ACTU – both sides of the Industrial Relations Club, scuttled it.

Viner introduced a Bill to the House that, had it carried the Senate, would have legislated for industry-based in lieu of craft-based unions, the standing down of employees who could not be gainfully employed because of industrial action, and abolition of preference to unionists. He had wanted to repeal the 'conveniently belong' provision by which the Arbitration Commission, by recognising only those bodies to which employees and employers might 'conveniently belong', confers monopoly status upon a small number of unions and employer equivalents. He unwisely told the Metal Trades Industry Association of this intention. In a statement to the House, he had also foreshadowed legislation allowing enterprise unions to be formed. A campaign led by George Polites quickly and so completely undermined him with Cabinet and the Prime Minister that he was replaced with the conciliatory (super-wet) Ian Macphee.[185] Viner, I recall, was taken by surprise. Macphee refused to have the Coalition proceed with the Bill in the Senate.

The Dries, for want of knowledge of what was proposed, had failed to give Viner the support they should have done and ended up with the worst of all likely outcomes. Occupied with airlines, motors, TCF, the budget and other matters I had not absorbed even Viner's Second Reading Speech until all was too late and Viner made no attempt

[184] David Barnett, *John Howard*, Viking Press, 1997, p 45
[185] Ian Viner, personal communication

that I am aware of to advance his cause outside the formal channels – naïve politics all round.

That was the end of even cautious attempts to allow freedom of employment. Compulsory awards (for the time being adjusted in line with the cost of living plus whatever benefits the unions could induce either employers or the arbitral authorities to grant) continued to set wages. Workers and employers were forbidden by law to negotiate productivity and employment enhancing deals. Unemployment, then at a post-war high of 6.5%, was to go much higher and the woeful productivity to which the Crawford Report and other studies had drawn attention continued.

In July 1981, the Arbitration Commission ceased to index minimum award wages for inflation. A year later the ACTU estimated that the 55% of employees covered by awards had during the previous year received weekly wage increases of $20 or more, with much more in the metal trades that had been an aggressive wage leader during the economic upswing with no regard to the cost increases from the second 'oil crisis'.[186] Treasury modelling predicted that each one per cent increase in average earnings equated to 30,000 more unemployed. In fact, unemployment rose much more.[187]

Toward the time of its ultimate defeat, with unemployment rising rapidly and blamed correctly upon the so-called 'wages overhang', the Government brought in a so-called 'wages freeze'. 'Wages overhang' referred to the extent that wage increases had exceeded productivity gains but the circumstance might as descriptively and more helpfully have been referred to as the 'productivity underhang'. The 'wages freeze' was a freeze of only wage-minimum awards. Dries who supported this were taunted with inconsistency. Had there been a wages freeze and had the Dries supported that, then the accusation would have been just. In fact the policy froze not wages but the regulations – the awards that set the minimums that caused the unemployment. It in no way restricted the ability of employees and employers to negotiate mutually agreed remuneration above the award minimums. The freeze merely prevented existing regulations from becoming even more damaging.

The Two Airlines Battle.

The Parliamentary Dries chose to make a stand on the two airlines policy. It was quipped that our stand was like General Custer's at Little Bighorn but, unlike Custer, although defeated, we survived to fight again. Since the early post war years, inter-capital domestic air traffic had been regulated by the Two Airlines Policy restricting services to Ansett and TAA. Because the Commonwealth does not otherwise have the Constitutional powers to regulate domestic transport, competition was restricted by prohibiting potential competitors from importing aircraft.

The policy not only prevented competition from a third airline, it prevented competition between the permitted two. They used the same types of aircraft, took off and landed within five minutes of each other and charged the same fares which by US, but not European, standards were excessive. One of the more amusing pieces of economic theory, Hotelling's Law, explains why they moved in lockstep. Consider ice

[186] David Barnett, *John Howard*, Viking Press, 1997, p 159
[187] Wolfgang Kasper, *The Destruction and Creation of Jobs,* AIPP, 1985 p 11

cream vendors serving customers on a beach. One vendor will establish himself in the centre. If another takes a position other than beside the first, he will get less than half the custom. If in the interests of customers they collude to set up their stands with 50% of the bathers between them and 25% on either end, each has a temptation to cheat by edging towards the centre. So it was with Ansett and TAA. Only the colour of the hostesses' uniforms differed – not the price, type of aircraft, seating, flight times or safety. That one airline was Government owned and the other private did not affect the equation.

In the United States, the *Airline Deregulation Act* of 1978 had opened airways to competition. Travellers then enjoyed fares that were on average 30% lower than before but, as they were falling anyway, perhaps the Act saved passengers only 10% to 18%. Depending upon how it is measured, in the first 12 years of US deregulation, airline safety improved by 20 to 45%.[188] Tales out of the United States of cheap fares, frequent services, over-crowded airport lounges and topless hostesses abounded. The plebs had taken to the air and those accustomed to travelling at Government or company expense did not always like rubbing their shoulders. Airline deregulation had been undertaken by President Carter – again the Left demonstrating its concern for the freedom of the underdog. It benefited low-income people and it provided an example for much that was to follow, with the reduction of detailed Government control over trucking, railroads, buses, cable television, stock exchange brokerage, oil and gas, telecommunications, financial markets and local electricity and gas utilities.[189]

The Australian Two-Airline legislation was scheduled to expire in 1981 but the companies were protected by a clause that required five years notice of termination of their duopoly. Long-haul fares, from Perth and Darwin to Melbourne and Sydney in particular, were believed to be subsidising short-haul fares such as Sydney to Melbourne and this was protested, particularly in Perth. We hoped, therefore, for the support of non-Dries from the outlying States and air travellers outside the Federal Parliament. From August of 1980, two Western Australians, Gordon Wade and Wayne Donaldson, ran the Fair Air Fares Campaign with skill and effect. Until the Perth media took up the issue, the cause, however, received scant support from the Western Australian Government. Charles Halton, the Federal Department of Transport Secretary, was a died-in-the-wool interventionist.

In October 1979 Peter Nixon, the Transport Minister, informed us that Cabinet had decided to maintain the two-airline system.[190] Faced with the Government commitment, we set about learning the arguments we must combat. Some of us called on TAA, Ansett and the freight carrier, IPEC, the last welcoming our proposed stand. When Peter Shack asked Sir Reginald Ansett why he had insisted on the inclusion of the clause promising five years notice and then three years notice of termination, Sir Reginald with a mischievous grin replied, 'Well my boy that is to give me time to change the Government'. He was charming but my impression was that, able to rely on his political muscle, he had never felt the necessity to justify the two-airline policy in public welfare terms.

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[188] Alfred E, Kahn, *The Fortune Encyclopedia of Economics,* 1993, p379
[189] ibid, p379
[190] My diary, 24 October 1979.

Ralph Hunt, who had replaced Nixon as Transport Minister, agreed to approach Cabinet with a proposal to set up a committee to investigate the allegation of fares cross subsidy[191]. This resulted in the Holcroft inquiry, but the Dries were interested in much more than the fare structure. Hunt and then Fraser[192] unwisely charged Shack and me with suggesting terms of reference for the inquiry. This was our opportunity. We could be reasonably confident that most competent economists would wish to report on the airline policy itself. We set about drafting terms of reference that on careful and literal reading would require the inquiring committee to do so, yet subtle enough to escape the notice of a Cabinet that rarely bothered with underlying principles. In this we were assisted by transport economist, Peter Forsyth. Ten months later I was able to note:

> Very argumentative but civil meeting with Ralph Hunt on Airlines. … Hunt tried to argue that the terms of reference did not include consideration of the two-airline policy. We kept reading the terms to him and pointing out that over 200 submissions to the inquiry read them as we did.

My diary for 18 September, the last sitting day before the election, is less cocky. It records that Hunt had

> put down a dreadful statement (actually a Second Reading speech) on domestic airlines. Far worse than I had understood either from the party room or committee.[193]

We had been double-crossed. The next day Shack, Rocher, Drummond and I (all West Australians) gave evidence to the Holcroft inquiry. Two days before the 1980 election I discovered from Gordon Wade and Wayne Donaldson (of the Fair Air Fares Committee) that the Government had extended the airline agreement for ten instead of five years. We had again been double-crossed and I had great difficulty hosing Wade and Donaldson down at least until after the poll. I pointed out that the Government required legislation that might fail in the parliament. If the Government was going to behave as it had, then it was reasonable and we wished it to be seen as inevitable that we should take off our gloves. Certainly we had ambushed the Cabinet with the Holcroft terms of reference, but, if they were too careless to read what was written or too ignorant to appreciate its implications, then was that our concern? Besides who should complain about an honest report by three competent inquirers?

In November the Dries sent Hunt a letter stating that we would try to cut the extension of the Two Airline Agreement back from ten years to one and failing that would vote against the third reading[194].

The day after the new Parliament met on 25 November 1980, Fraser and Hunt met the WA members. The Government, while making it clear that it was committed to the Two Airline Policy, agreed under pressure to defer legislation until Holcroft had reported. We agreed to their bringing forward the date by which it must report. Despite a lengthy letter, written immediately after the poll, explaining to Fraser why I supported airline deregulation, he still did not understand the Dries. He was

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[191] My diary, 4 February 1980
[192] ibid, 28 February 1980
[193] ibid, 18 September 1980
[194] My diary, 4 November 1980

convinced, because much of the pressure came from West Australians, not all of whom were consistent Dries, that the Dries would settle for the opportunity to portray themselves as heroes in WA on the issue of the imbalance in the regulated fare structure. We had won only a skirmish. Fraser held the outstanding trump in that, if there were no new legislation, the existing law continued.

Some outside the Parliament told us we could not succeed because while Rupert Murdoch owned *The Australian* newspaper and half of Ansett Airlines Fraser could not risk a 'bucket of shit in every morning's Aus'. We were naturally, despite our irritation with the Government, reluctant to believe that our own party was so beholden to any individual. Further, I doubted that *The Australian* was so beholden to Murdoch's other interests. Without quibble it had published an article by me roundly condemning the two-airline policy. Reasons for many things are cumulative. Fraser had said at the 26 November meeting that TAA could not be sold because it was part of 'the Australian heritage'. He may have believed even that. He did not say so, but it may have been significant that Doug Anthony's father had been responsible for setting up the Two-Airline Policy in the 1950s.

Tactics became rough. I received a phone call from Peter Walsh who told me that a News Ltd journalist approached him with a story that Shack and I had taken money from Western Australian financial interests. The journalist wanted Walsh to raise the matter in the Senate – I presume to give the story the immunity of parliamentary privilege. Walsh told me that he had told the journalist that although he did not know Peter Shack he knew me and thought the accusation unlikely. I heard no more of it. I would have anticipated Walsh's integrity but was grateful for his confidence. The journalist, who was very junior, was probably a mere dupe for somebody higher up the corporate tree.

Reg Withers organised a meeting between those MPs interested in deregulation and Rupert Murdoch who argued that the Two Airline Agreement was necessary for as long as the Government owned his competitor, TAA. He seemed genuinely worried that Labor would use the publicly-owned airline to cripple Ansett and argued the standard nonsense about large investment requiring protection. He accepted, however, that gradually, by negotiation, the airlines could be made competitive with the full force of the Trade Practices Act applied to them as in the United States. He was more excited about the refusal of his TV license 'in the national interest'.[195]

To the Government's dismay, Holcroft's committee accepted that it should report on the effect of the Two Airline Agreement upon air fares and told Ralph Hunt so. Hunt still tried to argue that the Two-Airline Agreement fell outside its terms of reference, but the *Australian Financial Review* described his argument as ridiculous. A game was being played at several levels. Although the Government had got the Dries to agree to bringing forward to early on the new year the date by which Holcroft had to report, the Department of Transport asked for more time and did not submit until December. Ansett did not submit until January. They had difficult cases to make, it is true, but one could not but think that they were hoping that delay would encourage the Government to act before the report came down. From the other side of the argument, 'drafts' of a submission that the Bureau of Transport Economics was not permitted by

[195] My diary, 26 November 1980

the Government to make became available for the Committee's guidance. The Dries demanded that, when the Holcroft Committee reported, its recommendations should be applied in full.

In February 1981 Transport Minister Hunt eventually tabled the report without making the usual statement to the House. My diary records: 'It must be the most damning report ever tabled'. That was no doubt a considerable exaggeration but the Committee had served what was for us its real purpose, the economic case against the Two-Airline Agreement had been authoritatively established.

The MPs opposed to the Two-Airline policy met and agreed to cross the floor to try to give it a five-year sunset clause. We believed that if we stood firm and let Peter Shack do the talking for us to avoid confusion, faced with a big block of dissidents, the Government would negotiate.

The Government was also rounding up support on the backbench and the issue was again discussed in a transport committee meeting in the presence of two departmental officers. Debate at this meeting, hindered by divisions and quorum calls, was not always edifying. A Tasmanian, parochial as always, insisted that the two-airline policy was necessary because Tasmanian pensioners required that route to be subsidised. One Western Australian dealt with the Tasmanians logically but, when he had finished, another, echoing the sentiments of many, said 'And we'll have no more of that Tasmanian crap!' The chairman, an unsuccessful aspirant for ministerial office, tried to insist that we agree that none of us should speak to the press. It fell to me to make it clear to him that the Dries would reveal nothing from the meeting but would go on telling the press where we stood. The *Financial Review* had that day carried an accurate account of the 26 November meeting at which the Government had agreed to await Holcroft. It should not have been leaked but it was accurate and, such was the level of distrust, we counted its accuracy a blessing.

Defending a censure motion against Hunt – a fairly routine Opposition tactic and not to be taken too seriously – Peter Nixon unwisely reflected upon the integrity of the Holcroft Committee. The Committee comprised three people who despite attempts to bully them had stuck to their task and reported in terms that relied upon the most conventional economics. People who were not overt critics of the Two Airline Policy rushed to the Committee's support and the Government lost ground. Nixon usually displayed better judgement.

The Independent ran a silly editorial criticising the WA Ministers for not publicly condemning the Two Airline Policy. At Fred Chaney's request, all but two of us signed a letter defending our ministers. There was little remarkable in that, but it is a measure of how hard we were now playing that I engineered the letter so that every signatory was nominally locked in to maintaining his opposition to the airline policy. By this time I was expecting to lose but not without a fight.

One of the two who did not sign was Peter Sim who, though tinder-dry on other issues, favoured the two-airline agreement and made no bones about it. He was the only MP from WA who was required to display any courage. The other WA Liberal backbench Members and Senators had acquired, if only temporarily, minor hero status in WA, a situation not entirely welcomed as it prejudiced acceptance of our

contention that we were motivated by the national interest. When ultimately I sat briefly with Labor Members, having crossed the floor, I was congratulated by a new Labor MP upon my courage. In the few minutes available I had trouble explaining to her that it required no courage to vote in a manner that was popular in one's own State and that I would sooner be judged upon the quality of the arguments.

Ansett was clearly becoming worried that it would face a competitive market in which TAA had the advantage of Government ownership and on its behalf Ansett executives Alex Carmichael and Graham McMahon briefed us. It was the first clear admission that our arguments had been understood. Carmichael insisted that Ansett could not live with the Holcroft recommendations and continue with the intended purchase of new aircraft. (They could, of course, have on-sold these.) The company, which had had a change of management, had put a series of options to the Government, the first of which was the sale of TAA and effective deregulation, the second option was the – unsatisfactory from our perspective – purchase of Ansett by the Government. The Government would accept neither, insisting upon the two airline policy.

Peter Shack developed a strategy that we felt just might work. It was to convince Ansett that we had the numbers to force the Government to accept Holcroft, so encouraging it to demand deregulation to avoid a worse position. To do this we needed to get as many MPs as possible to make a show of being with us, making it clear to them that we would not, if it came to a showdown, press them to cross the floor.

At this point a young lady in the Parliamentary Library pointed out to us that the Government would need a loans guarantee bill for the purchase of $600 million worth of aircraft.

Carmichael and McMahon came back to us with a package that included the sale of TAA but it did not set in train the end of the rotten system and we told them it had no legs. Carmichael came back again:

> About mid meal he put the proposition that we could work out the detail of deregulation and the sale of TAA but in the meantime the fares must be adjusted and the Loans Guarantee Bills put through. I must have shaken my head at the mention of the loans guarantees. Carmichael said suddenly but calmly and pleasantly enough 'You're a hard bastard'. All pretence was then dropped. … [He] said frankly that he had not mentioned the matter before because he had not realised that we knew of our capacity to block the bills.
>
> Ansett will accept a 5-year agreement so long as TAA is sold in this parliament. Really a very pleasant meal! …
>
> Went back to the House and Alex Carmichael went through it all with Peter Shack. He showed us letters and a record of conversation made by the Department of Transport that made it quite clear Ansett sought as their first option, sale of TAA and deregulation and that the Government refused.[196]

The night before 'Two Airlines' went to the Party Room, I wrote in my diary 'I'm a

[196] Recorded in my diary under, 25 April 1980, but the date is probably not correct

bit worried about tomorrow's debate. I can't help feeling that Fraser will have something up his sleeve.'

The Government came to the party room with an undertaking to take a loans guarantee bill to the parliament for only one aircraft, adjustments to fare-setting formulae and procedures and a special subsidy for Tasmanians. The last was greeted with widespread cynicism but as the loan guarantee was for only one of twenty-one aircraft our bargaining coin was preserved. We agreed to go along with the proposed statement to the House. Hunt made the Statement and Shack took the adjournment of the debate. When, on the resumption of the debate, Shack was on his feet praising the Government for a modest step in the right direction, Hunt came to me with the information that the Loans Guarantee Bill would be for all 21 aircraft. Was this a blatant double cross or monumental incompetence? We thought the latter and stayed away from the press, being unwilling to hang the nice guy that Hunt undoubtedly was out to dry. What is more we wanted airline deregulation not a flaming row that would permanently damage the Government.

Next morning the allies met. Fraser did not want to see all of us but Ross McLean, Allan Rocher, John Martyr and Mel Bungey all regarded Shack and me, the only ones who knew the detail, as too soft. McLean was sent with us to keep us honest as it were. Knowing that our position would be misunderstood, we did not like having to fight on the Loans Guarantee Bills so we agreed to stand out for:

- An enquiry into deregulation
- A five year term for the Two Airline Agreement
- The sale of TAA to private interests.

Fraser agreed to ring Sir Peter Abeles, the co-owner of Ansett, concerning the five-year term and to take an inquiry into deregulation to Cabinet. He gave us no satisfaction concerning the sale of TAA.

Back in the PM's office Fraser started with a long and sickening homily about the duties of a backbench MP which Phil Lynch later made all the more sickening by saying that the Government had made a commitment to 'a significant Australian Company'. He nevertheless called our bluff. We were not going to get the numbers on the Loans Guarantee Bills and, arguably, there were costs associated with delaying these, even if they were small beside those imposed by airline regulation. The three backbenchers withdrew and in private agreed that it would be better to fight on an Airlines Agreement Bill. Subject to agreement from a group whose confidence we no longer held, we proposed that the Government promise by inserting a paragraph in the Second Reading speech of the Loans Bill to present an Airlines Agreement Bill this session. The PM agreed.

We returned to face the others but were unable to persuade them. The PM had gone out and before I could inform him I ran into Withers who had not been present at the dissidents' meeting. He agreed with Shack and me and said that there came a point where Prime Ministers should be trusted. Given the circumstances of his sacking from the Ministry, this was remarkably magnanimous of him. I rounded the others up and it was agreed that at the imminent party meeting Rocher and Bungey would reserve their positions but that the rest of us would accept the Government's promise.

Meanwhile, it had occurred to me that the Government could get out of the spirit of its

undertaking merely by not proclaiming the Two Airlines Legislation it had promised to introduce. Immediately before the party meeting, I tried to get an undertaking from Fraser that the Government would proclaim it and was taken aback when accused of trying to introduce 'new matter'. As Chaney later expressed the opinion that I had in fact introduced new matter, I assume the ministers all along knew that they had reserved the means to double-cross us.[197] I went to bed that night feeling that I had been playing in a league several grades above my talents. Four days short of a year later Peter Durack was to warn me that, if we crossed the floor amending the Bill, Fraser still held the essential card, he would not proclaim it.[198]

Numerous meetings now addressed the detail. We had many quibbles with the legislation but we ended up insisting on only two provisions not adequately addressed by it – full disclosure of the way each fare had been set and termination after five years. Disclosure was accepted but the Government insisted on five years plus three years' notice of non-renewal if the Government of the day so chose. The backbench agreed to accept an eight-year sunset clause instead of the five plus three but the Government still would not agree. Little did the Cabinet foresee the future.

At one meeting attended by Sir Peter Abeles and Alex Carmichael the Ansett people simply refused to accept the distinction between Government and Parliament but the questioning led somebody to remark that the discussion had made Ansett look better and the Government worse. The Government had done its best to force Ansett into a regulated environment without making it clear that it might not be able to deliver the anti-competitive elements of the package.[199]

Only Mel Bungey and Allan Rocher had been street-smart enough to foresee that once the loans guarantee bill was passed and we had lost our bargaining coin, the Government would break its undertakings. Dries finally forced a vote on an amendment which, had it been successful, would have ended the Two Airline Agreement in eight years time. In the Reps, eight crossed the floor but we lost fifty four to fifty five. In the Senate three Liberals and two democrats voted for our amendments but we lost 29 to 31.[200] This was a significant real and symbolic set back for the dry cause but the seeds of a tree that was to bear fruit within the eight years had been sown. Since we failed to amend the legislation, we will never know whether Fraser was prepared not to proclaim it. Before the vote we knew, even if the Government seemed not to know, that we did not have the numbers. Nevertheless, more by way of mischief than insurance, Ross McLean and I painted a happy little picture for Phil Lynch of what might happen to Fraser if he failed to proclaim it.[201]

Shack and I had done the hard work that others had not been prepared to do but when it came to negotiating with the Government we had not had the necessary fire power. Nobody rubbed my nose in the fact, but I know it did not go unremarked. When the

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[197] My diary, 2 April 1981
[198] ibid, 29 April 1981
[199] My diary, 27 April 1981
[200] David Barnett wrote that I thought I could influence 30 votes. Even counting those I might have influenced negatively, at no stage did nearly so many people let my opinion influence how they voted.
[201] My diary, 4 May 1981

journalist Geoff Kitney told me that a number of our colleagues were unhappy, I encouraged him to write it; for the little it was worth at that late stage, the story would improve our bargaining position. We got front-page treatment in the Western Australian afternoon paper, *The Daily News*. Not knowing that I had encouraged the criticism of myself, some of our disenchanted allies became anxious to discuss anything else.

In August the Government announced an 8% increase in air fares but did not apply the Holcroft fare-setting principles.[202] Finally the Government, claiming the information was 'commercial in confidence', broke even its undertaking to disclose the basis of fare setting.[203] The airline struggle was in terms of its strategies and obstacles typical of all the Parliamentary Dries' battles during these years. It was atypical in the time it took, the resources it commanded and, I think, in the dishonour with which the Government covered itself.

CER

The Fraser Governments generally hindered foreign goods entering the Australian market. They said, among much else, that Australians should not be expected to compete with people on lower wages than were customary here. Yet in 1982 the Government concluded the Closer Economic Relations (CER) treaty with New Zealand which, being less wealthy, had lower wages. New Zealand was also one of very few nations that imposed barriers to trade in manufactured goods that were more restrictive than our own. I was suspicious and sought a briefing from a member of staff at the IAC. He did not allay my fears that a plot was afoot to have the tail wag the dog. Ironically, within less than a decade Dries were to wish that the tail would shake the dog, even though trade liberalisation in both countries had by then proceeded well ahead of the initial CER requirements. In the five years from 1983 to 1988 trade in goods between Australia and New Zealand would double, with CER popular in both nations.

In 1988 the agreement broke new ground for Australia by also providing for exchange of services. In 1992 and again in 1996 the agreement was widened, now providing for the harmonisation of domestic regulatory measures, elimination of anti-dumping measures and mutual recognition of standards and qualifications. By the end of the Century each country had become the other's largest market for manufactures.[204] CER was one of the Fraser administration's significant successes.

Mineral export guidelines

Doug Anthony, like the Whitlam Government before, tried to have the Government impose minimum prices upon mineral exports in the apparent belief that, without loss of market share in a competitive international market, Australian exporters could by this means be prevented from undercutting each other. The wool floor price and stockpile fiasco and its lessons were still years into the future and he may really have believed that it was possible for Australian companies to harvest some modest economic rents at the expense of foreigners. A protracted struggle ensued. The mining

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[202] ibid, 12 August 1981
[203] ibid, 2 December 1981
[204] Snape, Gropp and Luttrell, *Australian Trade Policy 1965-1997*, Allen & Unwin, 1998, pp. 463-5

companies, who saw no such opportunity, opposed the proposed policy, but many of them were multinationals and unlike the car companies discussed below were reluctant to be seen to be pressuring the Government. The WA Government vigorously opposed it, no doubt taking its cue from the mining companies, and the advice of its own treasury officials. Several months into the struggle my diary note read, 'Long Cabinet apparently had difficulty reaching a compromise on mineral export guidelines. PM finally issued a bland statement so I issued one of my own, [explaining the cost in conventional terms] not that I expect much notice to be taken of it.'[205] The malign influences of the Country Party, now the National Party, that Bert Kelly had battled, still dogged Australian governance.

Textiles, Clothing and Footwear

In March 1977 two of the poorest decisions of the Fraser years were taken. By announcing even tighter import quota restrictions, the Government significantly increased the protection afforded the already extremely uncompetative textile, clothing and footwear industries. Because the cost is hidden and tends to increase over time, this was the worst way to impose a trading privilege. It also broke GATT rules. Further, the Government expanded the role of the Temporary Assistance Authority, allowing it to grant protection for two years without an Industries Assistance Commission inquiry and to grant protection in the form of quotas.[206]

Howard was the minister directly responsible but he was less inclined than some ministers to big-note himself either truthfully or disingenuously with a group of disaffected backbenchers and I was unable to ascertain his own, as opposed to the Cabinet's, view. A few months later Fraser attacked the then current TCF report and the IAC in general.[207] It seemed as though the nation was to be taken back into the worst days of McEwenism.

Before the 1980 election, Dries again clashed with the Government over protection for the textile, clothing and footwear industries estimated by the IAC to cost the average household $5.80 per week. In July, while Cabinet was considering the IAC report on the industries, my diary records that Fraser had 'gone off his face' and was insisting on no change for five years. Twenty years on, I cannot recall what 'gone off his face' implied but clearly the Prime Minister was responsible for continuing the economic burden. I also recorded that Fraser warned me 'not to imagine I was God'.[208] I should have responded that neither of us should imagine he was God but repartee is not among my strengths. Fraser, nevertheless, touched a nerve that was rawer than he would have realised. Worry that I would be seriously wrong about an issue was costing me sleep.

The Parliamentary Dries failed to make significant headway with the Government but a grass-roots campaign was organised by many people among whom David Trebeck of the National Farmers' Federation was important. It was slowly to bear fruit. We lost that battle but my diary records that Brian Buckley predicted that we would win

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[205] My diary, 23 April 1979.
[206] David Barnett, *John Howard*, Viking Press, 1997, p 55
[207] Snape, Gropp and Luttrell, Australian Trade Policy 1965-1997, Allen & Unwin, 1998, p. 127
[208] My diary, 19 August 1980

the war within five years. Only six years elapsed before a Labor Government began unwinding TCF protection.

Early in 1981, stories circulated that named CEO's of two major companies threatened at a Manufacturing Industry Council meeting to bring down the Government and that representatives of another protected company launched a cowardly attack upon a civil servant at a meeting held at the Melbourne Club. Although I doubted that one of the parties would behave so badly, the stories otherwise rang true. As we had no way of verifying the accounts we could not use them. A diary note reads, 'I'm beginning to have a little more sympathy with Fraser but let no-one call him strong.'[209] Later, when the protection debate had been won during a Labor Government, I asked the individual whom I had doubted would behave so badly to join the board of the Institute of Public Affairs. He declined on the ground that he had fought me for so long and the alliance would do neither of our reputations any good. I think he was wrong. The tariff debate seemed for the moment to be decided and other important issues upon which we could agree, such as taxation and welfare, lay ahead.

As noted earlier, the IAC had been asked to report on the general level of protection, the so-called General Reference. But shortly after the 1980 election Bill Carmichael rang me from the Commission to tell me that the Cabinet had decided not to include Textiles Clothing and Footwear in the reference.[210] The hold that this small sector had over Government policy not only reduced living standards, it also indicted our democracy.

Motor Car Protection

While Peter Shack concentrated on airlines, Jim Carlton and I tried to unravel motor car protection.

Australia had had a small motor industry before the war and after the war the Holden had been produced without significant protection. By the late 1970s, however, vehicles with 85% Australian content were guaranteed 80% of the Australian market. In November 1974 the Whitlam Government had devised a 'plan' and had increased tariffs from 35% to 45%, but by as early as January of 1975 it had imposed 'temporary' import quotas. These were to continue apart from a short break in 1977 until 1988.[211]

Following the 17.5% devaluation, the first Fraser Government had announced an end to the quota that guaranteed 80% of the domestic market for domestically assembled cars but retained the high tariff.[212] Had it lasted, this would have been an important reform but it was to prove a false dawn except for a small gap in the clouds in 1980.

The gap allowed the duty-free entry of four-wheel-drive vehicles. The IAC had reported separately on these and David Trebeck and Ian Wearing of the National

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[209] ibid, 7 February 1981
[210] My diary, 21 October 1980
[211] Snape, Gropp and Luttrell, *Australian Trade Policy 1965-1997*, Allen & Unwin, 1998, p. 121
[212] David Barnett, *John Howard*, Viking Press, 1997, p 43

Farmer's Federation mounted an unusually effective campaign. The NFF, through its branch structure, concentrated upon stirring up the 4WD issue in four country electorates – Wannon, held by Malcolm Fraser; Richmond, held by Doug Anthony; New England, held by Ian Sinclair; and Gippsland, held by Peter Nixon.[213] They won, and the farmers' workhorses, given preferred access to the Australian market, soon became Toorak tanks.

With five motor manufacturers, Australia had more than the United States at the time and very inadequate scale economies. During 1980, the Industries Assistance Commission reported on the protection that the passenger motor vehicle industry should receive after the plan ended in 1984. It calculated that the regime was costing consumers collectively over $1,000 million dollars annually and individually $3,000 to $3,500 per vehicle. It followed from these figures that Australians would have been wealthier and would have had more employment had one or all of the five foreign car companies kept its threat to close down its Australian operation. There was in 1984 and at every stage before and since no likelihood of their doing so *en masse*. Parts of the Australian industry, even then, were of world class and could have found buyers with much less than any contemplated level of protection. Fraser prided himself on world-parity prices for petroleum, and we argued that it was no less logical to have for world-parity prices for cars.

When in 1980 the IAC Report on protection after 1984 became public, General Motors and Ford again threatened to withdraw and engaged in particularly blatant scare-mongering concerning employment. Dries, who argued the economic benefits from theory and IAC calculations, seriously understated their case.

We, among other failures, failed to make all that we could have made of poor vehicle quality. Australians were later to become accustomed to Australian vehicles of approximately world class, but in 1980 a Holden or Falcon could be unreliable even when new. Imported vehicles were admired for their workmanship and safety. Although there are no data on the deaths that would have been avoided by the better road handling, solid construction and safety features possessed by imported cars of the time, surely the Australian motor vehicle protection policy was responsible for considerably more Australian deaths than was the Vietnam War. We, however, concentrated upon the less emotive fact that protection robbed car-buyers of $3,000 to $3,500 that they might spend on employment-creating activities.

In November 1980, ten Government backbenchers, including significantly two from the National Party, issued a statement claiming that quotas limiting imports to just 20% of the Australian market breached the GATT rules. We were correct, but there was no likelihood that the issue would be adjudicated when other nations behaved similarly.

Early in December, the Government caved in to motor industry pressure and announced substantial rejection of the IAC Report. It put off doing anything about the industry for a further three years,[214] by which time Australia was to have a Labor Government.

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[213] My diary, 25 February 1980
[214] My diary, 3 December 1980

On the initiative of Wolfgang Kasper, 28 leading economists sent a letter to *The Age* and *The Australian* pointing out that the Government, when dealing with IAC Report had the choice of continuing high cost production or of embarking upon a program of pre-announced gradual cuts in protection. Over and above the obvious consumers' benefits, they argued that employment, even within in the motor industry itself, might increase, as the industry concentrated on manufacturing and exporting the more technically complex components.

By early in 1981 the dry MPs had approached the Automobile Associations, the National Farmers' Federation and the Australian Consumers Association with a view to a concerted campaign. We gained our first active support from the Mazda importers[215] and in due course other car-importing firms also helped with lobbying organisations such as the NRMA and with the money needed to finance the *Motor Users Association*. This sprang into being 'by popular demand' in July 1981. It in fact had few members but it did have a Sydney address, a vocal President with National Party connections, Geoffrey Keighly, and about $35,000 for advertising.

The automobile associations, who make so much fuss about the price of petrol, were uninterested in the price of cars. Not so Professor Milton Friedman, who was visiting at the time and had much to say about the stupidity of deciding to live poor by cosseting uncompetitive industries.

Mitsubishi, encouraged by Brian Jefferies, its Manager of Corporate Strategy, came to our aid. Shack and I visited its plant in Adelaide. Company personnel gave us information on the relative strengths of the car assemblers and of major component manufacturers, some of which, according to Mitsubishi, were as good as any in the world while others' products were of low-quality and highly-priced. Mitsubishi wanted to replace the 80% share of the Australian market and 85% local content rule with 70% and 75%. They too contended that without quotas the Japanese manufactures would cease to manufacture in Australia and become importers. Except for Nissan leaving Melbourne, that did not eventually happen. Toyota would actually establish a major exporting plant at Altona.

An 'export facilitation' program had been announced that would in 1982 allow manufacturers to import components equal to their exports and use these to reduce the 85% local content requirement. Mitsubishi told us that this rule favoured GMH and asked for our opposition to any increase beyond the proposed 7.5% while quotas continued.[216] Mitsubishi was, of course, talking the book of its Japanese owners but that one of the manufacturers should break ranks was significant.[217] Mitsubishi made strong public statements condemning the car plan, which the Dries followed up with a small barrage of press releases and letters to ministers. The next day General Motors representatives told us that any easing of the quotas would be disastrous and that export facilitation should be increased to 15%. Mitsubishi later briefed the relevant backbench committee.

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[215] ibid, 3 March 1981
[216] My diary, 17 November 1981
[217] ibid, 20 July 1981

Spokesmen for the motor manufacturers had a long record of not just exaggeration but of lying on a scale that is uncommon in Australia. Late in August of 1981, General Motors and the Vehicle Builders Union ran blatantly untruthful advertisements in all the leading papers. We got wind of them the night before publication and were able to organise an immediate reaction – telegrams to GMH, press statements from the Australian Automobile Association and the Car Users Association, an adjournment speech, press briefings and radio and TV interviews. I gave notice of motion to the House in these terms: 'That this House asserts that while foreign companies such as General Motors are welcome to seek profit in Australia they are not welcome to publish blatantly dishonest advertisements to influence Australia's democratic processes in favour of less-competitive more-favoured positions for themselves'.[218]

We, at least potentially, had the numbers, and my motion was therefore debated. I argued that foreign companies were welcome to exploit Australian market opportunities to mutual advantage as several international mining companies did. I accepted that they were entitled to take advantage of Australian laws that granted them protection, even though the advantage was probably not mutual. Foreigners were not welcome, however, to mount essentially political campaigns. Our democracy was our own business. Peter Shack followed in similar terms. Badly advised by an ex-employee of the Parliamentary Library, Chuck Chapman, CEO of General Motors Holden, a nice man but an engineer without a feel for the economy or politics and habituated to the self-serving nonsense that pervaded his industry, invited Shack and me to visit the Holden works in Victoria four days later. He was unlucky. Because of prior commitments we both had to travel from WA on the midnight flight and I was feverish with 'flu. In a filthy frame of mind, when the ex-library employee accused the IAC of dishonesty, I rounded on them repeating the commission's arguments in far blunter language than it was inclined to use.[219]

We came away with the impression that Chapman, taking his orders from Chicago, had not bothered to understand what the IAC was arguing because it was more comfortable not to know what damage his industry was doing.

In October 1981 a delegation called on Fraser. Jim Carlton led the debate for the Dries. He remarked wryly as we departed that he had probably just sacrificed his chances of a ministry. When Lynch revealed a double standard by not supporting positions he had maintained in private conversation with Dries, he permanently cost himself dry support for his deputy leadership.[220]

In December 1981 the Dries circulated a draft press release criticising the high levels of protection and calling upon the Government to implement the competitive private enterprise approach spelt out in the White Paper on manufacturing industry. Thirty-three out of a total of 79 backbench MPs signed the statement but not Andrew Peacock who was nowhere to be found. One more (who had not told his electorate secretary how to contact him) expressed disappointment that he had not been given the opportunity to sign up and Jim Carlton estimated that a further 12 were favourably

[218] ibid, 27 August 1981
[219] My diary, 30 August 1981
[220] ibid, 28 October 1981

disposed in private.[221]

Michael Cobb, a National Country Party Member, produced a paper which calculated that the average farmer paid around $250 per week to support protected industries – mainly cars and clothing. The statement's significance lay less in the calculation than in the fact that Cobb was NCP.

The Government nevertheless proceeded with yet another costly car plan, making only trivial concessions to the case for freer trade. The export facilitation portion of it was almost certainly in breach of GATT rules and the European Community lodged a formal complaint.[222]

The Dries had again failed to convince the young old men. It was reported that Jim Killen, our loquacious Defence Minister with a better command of rhetoric than logic, had convinced Cabinet that the motorcar industry had to be maintained for defence reasons. I don't believe that Killen could have swayed Cabinet with that argument. The coming Victorian election was probably of greater moment. Killen's reported success was, nevertheless, the butt of sarcastic comment about the number of Holden engines required to move a Leopard tank and so on.

The motor debate proved to be the apogee of the Parliamentary Dries' numbers-gathering in the Parliament and it came to very little at the time. As the election approached backbench courage waned.

Had Andrew Peacock, a Victorian who believed in low protection, signed up he might well have been Prime Minister. Some Dries, such as Peter Shack, supported him anyway. Others were equivocal but, when he did not display the courage of his known convictions, we gave up any thought of switching our allegiance to him. We let our disenchantment be known and Fraser, more sure of our support in a leadership ballot, became less amenable to pressure from us while just as ready to give in to, say, the Tasmanians. Dry influence in the Parliament waned from about this time. The debate, in which MPs had played an important although far from exclusive part, however, had gone a long way towards showing how liberalisation would result in productivity gains and jobs growth.

Other Protection

Protected industry has many faces. Before the 1980 election, BHP came to the Government, cap in one hand and a stick in the form of threatened lay-offs firmly in the other. It demanded guarantees that the steel Australian industry, in effect BHP, should have 85% to 90% of the domestic market reserved.

The Parliamentary Dries contacted steel users mounting what became a fairly standard campaign on behalf of freer markets but one that we conducted without much expectation of success. When Cabinet substantially refused the demands of what the Dries had referred to as 'these beggars in pin-striped suits' we were surprised. It gave me the opportunity, that I milked for what I could, to say something complimentary

[221] Jim Calton's Blue Book, p 66, *Australian Business*, 21 January 1982 and my diary, 7 December 1981

[222] My diary, 10 December, 1981

about the Government. A year later, however, the Government without explanation failed to renew the contract of IAC Commissioner Dick Boyer. Boyer in a minority report had criticised both made-to-order protection and BHP's attitude. John Durie, wrote in the *Australian Financial Review*:

> It is believed that Mr Boyer's non-reappointment was directly attributable to pressure on the Government, and in particular on the Prime Minister Mr Fraser, from protectionist lobby groups, who were upset at Mr Boyer's long-held strong free-trade feelings…

On the same day the *AFR* editorial supported Durie's contention. A whispering campaign against Boyer and his minority report had been heard before the decision and I too agreed with Durie.

During the approach to the 1982 Victorian election a proposal circulated to build 69 trainer aircraft in Victoria. It was to cost the taxpayer a mere $155 million but, as Peter Robinson (writing in the *Australian Financial Review*) observed, defence projects rarely came in on budget. Robinson suggested that the Department of Defence meet the cost of protecting 'defence industry' from the defence budget.[223] The Parliamentary Dries agreed.

What the Dries did not do was as significant as what they did. When, in June 1981, the Grants Commission recommended that WA lose $162 million (later amended to $114 million[224]) in commonwealth grants, the Western Australian Dries announced that they would not join the howls of protest. Tariffs particularly penalise West Australians but, instead of demanding public-sector compensation for what was essentially a private-sector cost, they called for tariff reduction.[225] The State later briefly took up the argument.[226]

In January 1979, I had been a lone voice in favour of a free domestic wheat market. The Fraser Governments did nothing to repeal the wool reserve price but to their credit they kept a respectably tight rein upon its level. In Chapter 11 we shall see the consequences of relaxing that rein.

The 'General Reference' had been taken from the IAC; given back to it to avoid responding to Sir John Crawford's *Study Group on Structural Adjustment*; had had passenger motor vehicles and textiles clothing and footwear taken from it; and finally had its recommendation to phase down tariffs rejected out of hand. By excluding the two most protected sectors the Government had very much reduced the Reference's point. To reduce tariffs on industries that had least protection, even negative effective protection, might actually have increased economic distortions, reducing living standards. The final insult was an attempt to deflect criticism from rejection of the recommendations by proposing a 'circuit breaker' for worldwide tariff cuts that came to nothing.

The European Common Agriculture Policy (CAP) was and still is particularly damaging to Australian agricultural exports. During 1977, at a lunch in Brussels with

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[223] *The Australian Financial Review*, 7 December 1981
[224] My diary, 9 June 1982
[225] *The Daily News*, 11 June 1981
[226] My diary, 17 & 19 June 1982

Roy Jenkins the President of the European Commission, Fraser ambushed the European Economic Community (EEC) into accepting a Minister for Special Trade Negotiations from Australia. As Australia's tariffs averaged 24%, only second to New Zealand among OECD members, while the EEC's averaged only 9%; this required some gall.

John Howard was appointed to the task. He took an expert team to Europe. During six weeks of negotiations with thirty ministers in the European capitals he concentrated upon the effect of European surpluses upon world markets – an essentially mercantilist argument. His brief, although a step forward, was, in all the circumstances, a weak one and he achieved little that was immediate. It is impossible to know what longer term influence he had. Probably none in Europe, but in Australia the arguments for freer trade were forced upon people's attention. They were later said to have produced the concrete result of the formation of the Cairns Group of nations during the Uruguay Round of trade negotiations under the auspices of the GATT.[227] The methods, if not all the arguments employed, were consistent with the dry approach – namely, to get the essential arguments on the table.

The Fraser Governments did not sell much but they did put the Housing Loans Insurance Corporation, a small pharmaceutical operation and an engine works on the market. During 1979 the party room had debated the sale of Government-owned Trans Australian Airlines. The debate was not initiated by recognised Dries who were at the time more interested in competition than in ownership. The proposal did, however, have clear majority support[228] but the Government ignored that. By 1981, at the height of Two-Airline policy struggle, it had become an important feature of the dry proposal.

Race

During the spring of 1979 Ross McLean, the Member for Perth, came under sustained attack from the League of Rights and another overtly racialist group, the Australian National Alliance, over his defence of immigration and the refugee intake. Ross, a Dry himself, had the support of other Dries and I had a hand in organising a defence. Moreover, Wets and several Labor Party MPs came to his support. Although race is not an issue that separates Wets from Dries, economic rationalists are sometimes accused, in the context of their opposition to race-based privilege, of being racially prejudiced. That Perth campaign ought to put paid to that accusation.

A word about the League of Rights is warranted. It arraigned me for my support of McLean at a meeting of about forty of my constituents. The evening resolved nothing but it was conducted with civility that contrasted with the incivility of later anti-Hanson protests. The League of Rights is a nuisance and has a bad record but its views on immigration and bank credit[229] are in no risk of adoption and, even if they were, they should be met with argument. Its visible membership from the mid 1970s when I had my first dealings with them tended to be elderly gentlemen who respected life's civilities.

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[227] David Barnett, *John Howard*, Viking Press, 1997, pp 57 - 59

[228] My diary, 12 September 1979

[229] The League supports Douglas Credit which interprets the banks' combined ability to create credit as ripping off the community.

In its early days the Fraser Governments enacted the Northern Territory land rights legislation. Although several Members and Senators did object to it, I cannot recall any whom later became prominent Dries doing so. Native title is not *per se* an issue upon which dry belief offers guidance. It is one thing to assert that Governments should respect property rights; another in this case to decide who holds the relevant rights. We ought, however, to have baulked at the legislation itself.

The land title recognised by the legislation was so inferior that it could never have raised the living standards of Aborigines. It could not be sold or mortgaged. Its ownership was so unclear that it was often uncertain who had the right to speak for particular areas of land. Neither law nor precedent defined the rights the title conferred. Sometimes even the physical boundaries of particular titles were in dispute. Aborigines could barely exploit such a title and it frustrated development. It should have surprised no one that Aborigines used their capacity to delay development to gain mineral royalties and other benefits. Any other group would have done the same. A market of a sort developed but a very inefficient one that was unpredictable and delivered questionable justice. When in the 1990s native title became a much more widespread issue the same problems were to frustrate any approximation of consensus.

Health Education and Welfare

During the 1970s social welfare payments rose from 21% to 28% of the budget, brought about in part by an ageing population but more by increased eligibility.[230] During the final stages of the preparation of the 1981 budget, Fred Chaney, the then Minister for Social Security, managed to get some needs-based welfare provisions past Cabinet only to have the issue recommitted by Jim Killen. They were then abandoned. My diary records that Fraser stuck with Chaney.

In the autumn of 1982 Sir William McMahon resigned the Sydney suburban seat of Lowe. The consequent by-election caused another foray into dry policy and yet another serious Government retreat. That it lost the seat hardly mattered since the Coalition still retained a comfortable majority in the Parliament. The loss in Lowe that did matter was to sustainable welfare policy. In another context Sir Philip Lynch had called for needs-based welfare. However, 20% of Lowe's electors were pensioners, many of them wealthy, and Sir Philip was instructed to back off. He did thoroughly, stating that he had in mind only the long term. Within a few days Labor followed suit. Several editorials had supported Lynch's original statement but the Government wanted votes not newspaper support.[231] The episode demonstrated first the Dries' influence and second their inability to come to the effective assistance of allies, especially those who had not warned them. A by-election had again harmed public policy.

It came to nothing, but late in 1980, Wal Fife, the Education Minister, agreed to my request to try to get funding for the blind in voucher form, empowering the recipients to choose the institution that would best service them.[232] Had Cabinet accepted the

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[230] David Barnett, *John Howard*, Viking Press, 1997, p 114
[231] My diary, 7 March 1982
[232] ibid, 4 December 1980

proposal and had it proved successful in practice, it could have become a precedent for education funding more generally. The Isolated Children's Grant already existed but it was not referred to as the 'The Isolated Children's Voucher' and few people appreciated that it had the essential features of voucher funding.

Dries consistently opposed free tertiary education. However, when they tried to stir up a fight about its regressive nature with university and CAE vice-chancellors and administrators, these were disappointingly reluctant to take us on even in the relative privacy of the meeting.[233] Perhaps, confident of support within the Government, they would not demean themselves squabbling with backbenchers.

Healthcare reform was as difficult for the Fraser Governments as it has proved for all Governments before and since. The Coalition had gone to the 1975 election promising to abolish Medibank but achieved little except (in 1981) making health insurance premiums tax deductible.[234]

Lack of progress was not always the Government's fault. Toward he end of 1981 Fred Chaney told me that during an industrial dispute he had approached five firms with compatible equipment to handle his department's social security cheques. None was prepared to face the union opposition.[235]

The 1980 Election

Sainsbury, Shack, Carlton and I had gone to the polls in 1980 thinking it very likely that the Government would lose. One sunny Canberra morning before the House rose for the election, we discussed the fate of the dry ideal in the event of a Government loss. We agreed that the public would believe that the ideal, which we were referring to as 'liberalism', had been tried and failed and that this perception would be very damaging to the cause. That we would lay off the Government during the campaign went largely unspoken. We, however, agreed that, win or lose personally, win or lose the Government which was carrying the burden of the second oil shock, we would use the declarations of our polls to publicise the fact that the economy was in poor condition not because the ideal had failed but because it had not been tried.

The Coalition lost 12 seats but achieved a 23-seat majority. It did as well as it did by employing the dubious assertion that Labor, which proposed a capital gains tax, intended it on housing. To shift investment from housing into areas that would contribute directly to GDP, the Dries had advocated just that, but the ALP had not. If the Coalition's behaviour in 1980 encouraged Labor to behave even worse in the 1993 *Fightback* election, then the nation paid dearly for that dishonest campaign tactic.

After the election *The West Australian* reported my poll-declaration speech:

> 'In 1975 we spoke of concentrating welfare on need, yet we have promised $38 million of taxpayers' money for sport.
>
> 'We spoke of small Government yet in real terms the latest budget was the biggest ever.

[233] ibid, 29 October 1981
[234] David Barnett, *John Howard*, Viking Press, 1997, p 138
[235] My diary, 17 December 1981

> ‘We spoke of controlling the money supply and for a while we did, but in each of the past two financial years we have grossly exceeded the target.
>
> ‘We talked of controlling the deficit and in this area some progress has been made. But five years later the Commonwealth budget deficit is still $1566 million and the total public-sector deficit is almost as big as it ever was.”
>
> However, the ALP had advocated even looser management of all these matters, he said.
>
> Mr Hyde said that Governments were subject to the laws of arithmetic and the principles of economics and no amount of wishful thinking would make them disappear.
>
> The task of leadership was to encourage the Australian people to accept the world as it was. For example, this was to accept that in order to provide more for the needy it would be necessary to give less to those not in need or that in order to achieve full employment wage levels would need to fall a little.
>
> ‘We should not avoid the consequences of cutting unwarranted expenditure or of higher interest rates likely to be associated with responsibly managed money.’ Mr Hyde said.
>
> ‘Instead we should explain the consequences of not doing these things. It is not just that we have not spoken to the people about our economic decisions, but we have refrained from making responsible decisions because we have felt unable to explain them.
>
> ‘For Australia’s sake we need to mend our ways. After all it is as likely that the swing against us was because people were disappointed with our achievements as it was that they believed that all their demands could be satisfied with Government handouts. If the first case applies, then the electorate is critical but perceptive and can be led to great achievement. But if the second is so then Australia is ungovernable.’[236]

Today the rhetoric sounds extreme but in 1980 expressions such as ‘politically impossible’ and ‘you can’t take away from the electorate what it has been given’ were so much part of the received wisdom that the conclusion that the whole democratic world was determined to vote itself more than it could produce was easy to reach. That the consequences of democratic profligacy by causing stagflation would ultimately result in loss of the Cold War was feared by Dries – not only in Australia.

If I actually said wage levels rather than minimum award wage levels would need to fall a little, I should not have done so. I had no doubt that following labour market deregulation improved productivity would result in increased real earnings.

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[236] *The West Australian,* 23 October 1980

Shortly after the election, however, the *National Times* reported only four backbenchers as calling for lower expenditure with most of those surveyed blaming the conduct of the party's campaign rather than the conduct of Government for the twelve seats lost. However, Peter Shack, who was not one of the four cited, a few days later used the declaration of his poll in Tangney to declare that one was either an axer or a taxer and that he was an axer. He said that the 'extent of the tax take' and 'the ever increasing growth of Government and Government expenditure' had attracted the electorate's criticism.

Eric Robinson, who had been Minister for Finance but was now again on the backbench, freed of the incubus of office, threw his weight in with the Dries by calling for smaller Government and a needs-based welfare system.

After *The Age* had dismissed my Declaration of the Poll speech as of little account, my diary records a conversation with Tony Rutherford:

> I will have to raise the anti if I am to be heard. I will run a big risk of just isolating myself! It will be interesting to see if I can refrain from annoying people when it is pointless.[237]

Couched in first person singular the entry now sounds too self-important but the problem was real enough and it affected all Dries.

Much later the Federal Executive of the Liberal Party issued a statement that had occurred to it 'spontaneously' to the effect that 'loyalty wasa prerequisite' and promising that it would 'not tolerate irresponsible and mischievous activities'. I do not recall discussing this directive at any dry meeting. However, the press records that I self-indulgently referred to 'party management by resort to the fuhrer principle'. The injunction, although clearly directed at us, was not, save for responding to press questions, even acknowledged.

Outside the Parliament

Although the influence of Dries on the Coalition backbench had peaked by the first half of 1982, in the wider community the ideal was gaining ground along with change in the international *Zeitgeist*. The Federal Platform of the Liberal Party, released in May 1982 but written earlier in the year, was unquestionably a dry document advocating a minimum of Government interference in the economy, the maximum degree of competition and a gradual lowering of protection levels.[238]

Five leading mining companies, MIM, Western Mining, CRA, Renisons and Cliffs (the Gang of Five) prepared a submission to the IAC calling for lower tariffs. The submission also called for the abolition of the industry's own benefits which my diary records as 'one in the eye' for BHP and CSR.[239] This was a break-through. The mining industry, despite its obvious interest as exporters, had traditionally remained silent on the tariff. It was said that this was because of the influence of BHP, which had a steel division to protect. *The National Farmer* reported that Fraser was 'intensely annoyed'.[240]

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[237] My diary, 28 October 1980
[238] Laurie Oaks, *The Age*, 6 August 1982
[239] My diary, 19 January 1982
[240] *The National Farmer*, 25 February, 1982

Before the decision on the General Reference, the Retailers Association, the National Farmers' Federation, the Australian Federation of Consumers Organisations, MIM, Western Mining, CRA and Renisons had jointly lobbied the Government to reduce protection.[241]

When the Government excluded the textiles, clothing and footwear and motor cars from the General Inquiry, the National Farmer's Federation had launched a blistering attack on 'the tariff farce'. The NFF, risking division in its own ranks from the protected dairy, citrus, tobacco and dried-fruit sectors, embarked on a campaign to quantify the cost of protection for their farmer constituents. Its calculation was to have lasting impact.

At the time all of these organisations failed, apparently totally, but not many years later a Labor Government was to do all they asked and more. One, perhaps the only, immediate effect of their protests and submissions was to give solace to the Dries in Parliament, who were under attack from sections of the business community. A panel of businessmen interviewed by Four Corners at the ALP conference asserted that the ALP had a much better appreciation of business than did some sections of the Liberal Party, the so-called Dries,[242] an assertion that was to prove mocking. When it came, the reform was brought about by committed politicians but made possible by a changed political climate that was achieved by the sum of many efforts. For good or ill, for personal or public gain, people who care about public policy do change it by changing public opinion.

The Resources Boom

During the third Fraser Ministry, Federal and State politicians, Liberal and Labor, regaled Australians with accounts of the wealth that was sure to flow from development of Australia's veritable Aladdin's cave of minerals – an impending resources boom. Many of the promised projects were never to eventuate and others not for a very long time.

I recall a parliamentarians' briefing in 1980 by Herman Khan of the American Hudson Institute, during which worldwide Government budgetary restraint was advocated. Chris Hurford suggested that because of the wealth of our mineral industry this stricture did not apply to us. He elicited the response that Australia's minerals would keep Australia asleep for just long enough for recovery to be impossible. Hurford might today take some pride in the fact that he was later to be a member of the Government that did most to wake us up.

In the meantime, however, irresponsible wishful thinking was to reek some havoc. The impending resources boom was an excuse not only for loose fiscal management but also for borrowing for infrastructure by the States and a union-driven wage hike. In a highly protected, over-regulated, sclerotic economy, a hefty dose of cost inflation was inevitable and we got one. Nominal wages rose 14% in 1981 and 13% in 1982,[243] eliminating the marginally viable minerals projects and investment in other sectors

[241] My diary, 6 July 1982
[242] My diary, 7 July 1982
[243] Peter Walsh, *Confessions of a failed Finance Minister*, Random House, 1995, p 54

besides. The AMWSU chose this time to push for a 35-hour week without commensurate reduction in weekly earnings. Those circumstances combined with a global economic downturn to cause unemployment to rise to around 9% during the early 1980s and pushed the current account deficit to 5.8% of GDP by 1982/83. Mining's share of the Gross Domestic Product of most countries including Australia went into sharp decline from 1985, earlier in Asia.[244] The foreign debt incurred by these extravagances remains today.

The tragedy caused by the resource-boom hype served to instruct some soon-to-be-elected Labor people not only of the dangers lurking in economic fairyland but also of hype in general. The ALP platform still promised central planning but, as Peter Walsh noted, very few people read it and a majority on the Federal executive of the party would not have agreed with it.

Countdown to the 1983 Election

During the course of the last Fraser Government I referred to Australians becoming 'The poor white trash of Asia' and Australia as 'the land of Circe'. (I used 'poor white trash' before Lee Kwan Yew and I wonder if he also gleaned the expression from *Gone with the Wind*.) Toward the end of 1981, when the Peacock challenge to Fraser was thought to be at its height, the Willoughby electorate council of the Liberal Party in NSW had asked me to address it. First declaring my preference for Fraser, I launched into a criticism of the Government's lack of commitment to anything. By backbench measures, I received huge press coverage and at least Ministers Howard, McKellar and Lynch told me that they agreed.

By then the Parliamentary Dries played a game that they would never have had the courage or the stamina to play had it not been for the Crossroads Group that gave them confidence that they were not just cranks. It was not that we feared retribution because only those of us who expected promotion had anything to lose. Rather, we feared making serious mistakes, suffered the dispirit that comes of losing one battle after another and the regret that so many of our colleagues, our electorate committees and our party officials wished that we would stop being awkward. Our right to speak our minds was, however, respected by everybody.

As early as December 1981 my diary records:

> Since the likelihood of losing Moore increases I must do everything I can to insure that the cause of liberalism (the philosophy not the party) continues after the election. It needs leadership. It must not be blamed for the party's losses. It needs some adherents in the ALP.[245]

In July 1982 inflation was galloping at an annual rate of 10.7%, the worst for five years and four percentage points above the OECD average.[246] The economy was in recession and 'no-change projections' indicated a deficit well in excess of $2 billion.[247] Australian Governments were borrowing on official account to offset the

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[244] Productivity Commission Research Paper, *Aspects of Structural Change,* 1998, p xiv

[245] My diary, 15 December 1981

[246] David Barnett, *John Howard*, Viking Press, 1997, p 221

[247] ibid, p 217

trade deficit that was not being offset by private capital inflow.[248] The world economy was in poor shape. On top of that, with the election approaching, the Government wanted tax cuts and was reluctant to face up to the necessary expenditure discipline. From some time early in 1982 John Howard, who was meticulous about Cabinet proprieties, had become increasingly offside with his Prime Minister.[249]

The capacity to improve the economy by monetary means had passed. Much of the Parliamentary Dries' effort before the 1982 budget was, therefore, devoted to encouraging the Government to cut spending irrespective of the electoral consequences. Fraser actually promised me that this strategy would be given due consideration.

By the time of the budget, Howard had been placed in an extraordinarily difficult position. It had become apparent to the backbench that fiscal management had been taken out of his and Treasury's hands by a Cabinet determined to 'buy the election'. He could have resigned in protest but, if he had removed his voice from Cabinet not only would he have been blamed for the forthcoming inevitable defeat, the budget would have been even worse. My opinion, which I voiced, was that he should not resign. It is a measure of Howard's exceptional honour that no stories have ever been circulated explaining his behaviour concerning the 1982 budget.

Fraser, wanting to keep the option of an early election open, had brought in a budget offering income-tax cuts without significant reductions in expenditure or the introduction of an alternative tax. As might be expected, Dries in the Parliament, the universities and even the civil service, where a change of Government was anticipated, drew attention to its irresponsibility.

There had been little attempt to restrain expenditure with every sizeable cut vetoed by some Cabinet interest. The budgeted deficit was $1.6 billion but worse, the underlying figuring seemed inconsistent with Statement No 2 written as always by Treasury. The projected no-change deficit in 1983-84 was rumoured to be about $5 billion.[250] As it turned out, even that figure was conservative. It short, the budget was about as bad as the leaks had suggested it might be and at the usual post budget party it was plain that Treasury officials did not like it. One, David Morgan, later the CEO of Westpac, encouraged by some alcohol, told me to 'put up or shut up'. I think I eventually established that he had no wish that I shut up but I could not establish how he expected me to put up.

The 1982 budget saw chickens hatched during seven years of poor fiscal management come home to roost. Faced with a worldwide recession, a stimulatory budget, had it followed a period of budget surpluses and public debt reduction and had inflation been low, would have been appropriate. The Government was denied responsible recourse to that option by its previous profligacy. For the previous four or five years Treasury officers had warned backbench committees of this day and presumably they had been no less blunt to Cabinet.

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[248] My diary, 29 July, 2 August 1982
[249] David Barnett, *John Howard*, Viking Press, 1997, p 178
[250] My diary, 23 September 1982

Bad though the budget was, the Government added further post-budget expenditure. A 50% subsidy was offered for fodder fed to livestock in drought-affected areas.[251] This subsidised not just the retention of young breeding stock but of all stock. It raised the price of fodder but production had to wait upon the next season. It rewarded most the big fodder producers and those stockowners that had made least provision for bad times. It kept livestock in wool production that was not economic had the full value of the fodder been debited to the enterprise. In short, it was a typical National Country Party scheme.

Peacock was on the backbench and challenging Fraser's leadership. Making matters worse politically, the first half of the year had been dominated by endless counting of the numbers culminating in a party-room ballot on 8 April: Fraser 54 beat Peacock 27. The leadership challenge had divided Dries, Wets and the save-our-seats (SOS) brigade. Although I voted for Fraser, a few days before I did so I had hand-delivered to him an extremely condemnatory account of his stewardship and on the day before the party room ballot he had discussed it paragraph by paragraph in a studiously civil manner with me. My diary also records:

> Later by chance I had dinner with him at Peter Lee's [a restaurant] in some Leagues Club. Where [four names] fawned all over him. I actually felt sorry for the bastard. The company of sycophants must be an awful moral hazard.[252]

Leaders suffer a peculiar loneliness. The further they climb the greasy pole of office the more they hear of their virtues until even the most level-headed believe what they hear. Emperors, born into the job, literally went mad from flattery. When, shortly after the budget, the Government made the decision on steel imports discussed above, Dries seized upon the opportunity to speak favourably of one Government economic measure with all the enthusiasm and absence of hope that drowning men have for straws.[253]

The loss of seventeen seats in a Victorian State election provoked a Coalition party-room debate in Canberra. It was the setting for the best interjection I heard in eight years. Individual MPs had called for handouts to the country, the city, the old, the young, manufacturing industry, farmers, women and many more. Nobody added it all up but we had together spent a considerable portion of the GDP when Ross McLean interjected: 'Malcolm, why don't we try good Government? It might be popular'. Not everyone thought the sally funny and it was far too late for good or bad Government to save us.

By the end of the year, the economy was in recession and unemployment was heading for 10%. The budget, which had not been honestly cast, was already over the top by a further $1.6 billion.[254] A diary note as early as September, not anticipating the Hawke coup, had recorded:

> Hayden will preside over an economic debacle.

The atmosphere was to remain one of chaos and bitterness until the House rose for Christmas.

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[251] Peter Walsh, *Confessions of a failed Finance Minister*, Random House, 1995, p 67
[252] My diary, 7 April 1982
[253] ibid, 26 August 1982
[254] David Barnett, *John Howard*, Viking Press, 1997, p 227

The End

On 3 February 1983, Fraser advised the Governor General to dissolve both Houses of the Parliament a year before the Government's term was up and Bill Hayden stood down as Opposition leader in favour of Bob Hawke. On 2 March, Fraser refused to allow Howard to admit that the budget deficit was by then projected to be $6 billion. On 5 March, one of Australia's less satisfactory Governments came to its anticipated end giving Labor a 25-seat majority. What was to follow, however, took everybody, not least the Dries, by surprise.

Chapter 10
The Hawke Years I

It must be considered that there is nothing more difficult to carry out, nor more doubtful of success, nor more dangerous to handle, than to initiate a new order of things. For the reformer has enemies in all who would profit from the old order and only lukewarm defenders in all those who would profit by the new order.

Machiavelli

The 1983 election defeat of seven key Dries was described by *The Age* as 'a lethal blow to Dries'.[255] It also reported me: '[The losses] may weaken [the dry] voice in Canberra, but it always had a momentum outside Parliament. We were just a vocal sector of it.' I had responded to the journalists with more bluster than prescience but I was to prove to be nearer the mark than *The Age,* at least until the late 1990s.

Briefly, the ex-parliamentary Dries remained vocal. Before the election we had agreed, as we had done in 1980, that we would try to demonstrate that, far from failing, genuine liberalism had not been attempted. Two days after the election *The Australian* ran a statement that I had prepared before the poll:

> We talked of fighting inflation first, but missed our money supply targets three years in a row so that inflation was going up in Australia when it was coming down in the economies of our major trading partners. Monetarist policies were certainly not tried in Australia.
>
> We talked of the need for balanced budgeting, but this year the budget deficit will be of the order of $5,000 million.
>
> We talked of free enterprise and the benefits of a competitive market economy yet continued to regulate airlines, shipping, the sale of agricultural produce, petrol retailing and so on in the best socialist tradition.
>
> We talked of the benefits of trade but actually increased barriers to trade in several areas.
>
> The Government had backed the relative efficiency of the private sector but the public sector was now a slightly higher percentage of the economy than it was in 1975. It warned of the dangers of uncosted commitments but promised bicentennial road programs, railway lines and even talked of turning the rivers inland.
>
> In short the policies that have for seven years guided the Government have essentially been those of socialist parties the world over and our economy now shows it.
>
> It would be tragic if our rhetoric were mistaken for our substance, so that liberal policies were judged to have failed when we did not, except for very short intervals, try them. There was no one person to blame. It was the fault of the entire

[255] The Age, 7 March 1983

> Government.

Such words left me wide open to the accusation of bitterness. I escaped far better than I had anticipated and possibly deserved.

I did not suspect it, but Australia was about to embark upon one of the most significant and exciting passages of Government in its short history. It was to have another period of genuine radical leadership without the errors of the Whitlam years. Because they deemed them to be in the national interest – there can have been no other reason – Labor Governments espoused and practiced policies that repudiated socialist tradition and were initially unpopular. To an unusual degree, Prime Minister Hawke and his Cabinet took the public into their confidence, defending rather than disguising policies. Exceptional political virtue in these times did not all reside with the Government. On many issues, to their own potential political cost, the Opposition supported the Hawke Government in its reforms and was often ahead of it in its advocacy.

It is easy to find fault with Governments and Oppositions. One has only to consider media policy favouritism to appreciate that the Hawke Cabinets were not paragons of political virtue. Nevertheless, when all that was wrong is given its due, it can still be said that the Hawke Governments and that Liberal and National Parties in Opposition can be distinguished from their counterparts of other times by their stewardship of the interests of the whole nation.

By September 1985, 30 months after Hawke's victory, an article in the *National Times* following interviews with eight of the directors of what it called 'The New Right Thinktanks' included the following:

> A turn-about has … occurred in the traditional expectations of the major political parties. The Hawke Ministry has fulfilled few expectations of a Labor Government. The blade of Hawke's razor gang is far sharper than Fraser's ever was and Labor acts upon much that Fraser only talked about.
>
> Treasurer Paul Keating has delivered a financial reform package that included deregulation, one of the main concerns of the New Right.
>
> Another New Right favourite, privatisation of Government bodies such as the ABC and the Commonwealth Bank, is also publicly canvassed.

The inheritance

Before the poll the Fraser Government had been told that there was a considerable budget blow-out but had managed to keep this out of the media. When Hawke won office in 1983 he 'discovered' that he was faced with a deficit of $10 billion. This enabled him to announce with much recrimination that, because he had been misled, he would not be able to keep many of his least responsible election promises.

The Hawke Governments inherited: a budget deficit which eventually came in at $8 billion, serious wage pressures, 10% unemployment, a public-sector borrowing requirement of 7% of GDP, annual inflation of some 7.5%, liability to service foreign debt of 1.3% of GDP, and a currency in long term decline. The Australian dollar had fallen from US$1.41 in 1974 to US$0.86 in March of 1983. The trade-weighted index

of our currency's worth tells a more reliable story. Beginning at 100 in 1970 it had risen to 105 in 1975 fallen to 86 in 1980 and to 76 in March 1983.

On the positive side for the new Government, the recession had almost bottomed, the drought had broken and Hawke inherited a body of semi-established ideas, of which the Campbell Report on the financial system was the most important. Its most difficult political task was, therefore, to gain acceptance from its own support-base. Another significant element in politically disaster-free decision-making was that many of the arguments were on the table and the public's reactions were already conditioned by the publicity that the Dries had achieved during the Fraser years. Nevertheless, nobody at a Crossroads meeting immediately after the mini-budget the new Government brought down in May expected that Hawke would for long be able to prevent its virtue being compromised by the unstable coalition of vested interests that he had to lead, especially the ACTU. Eventually we were right – all Governments fall to pieces – but this one was to govern better for longer than anybody that weekend had anticipated.

Government Personnel

Many remarked the quality of the new Cabinet. Many of its members had been recruited to politics in the days of the Vietnam War protests. One does not have to accept their analysis of the war to believe that Vietnam had motivated young idealists of high quality who in later years became available for Labor Party endorsement.

Keating was a mixture of a man, in some ways flawed, but with exceptional capacity to get Treasury's policies implemented and he made truly excellent use of the guiding back up of the Treasury team. He could, as he so often boasted, see 'the big picture'.

Peter Walsh was appointed Resources and Energy Minister and then, in 1983, Minister for Finance. In the latter role he became responsible for maintaining the integrity of the budget process. The attributes that Walsh brought to the Finance Ministry were as simple as they are rare. He is a genuine egalitarian; he is intelligent; and extraordinarily intolerant of hypocrisy. He really did want to help people who had difficulty coping with life. He knew that the Government could not do this if the economy did not grow and if resources were squandered upon middle-class trendies, inefficient businesses, farmers with assets often exceeding $1 million, over-manning and inefficient work practices. Recognising the disingenuous arguments of interest groups and the partial arguments advanced for narrow causes for what these were, he could be savage.

His contempt for the Country Party predated his entering parliament. Its sin was to nurture a culture of complaint among farmers and, posing as their allies, to offer remedies that were not in the national interest and often not even in farmers' interests. Minor parties, the world over, tend to depend on the support of groups that, if they ceased to feel persecuted, would end the reason for the minor party. Because it is in their interests to do so, they pump up indignation, rarely explaining hard options to their supporters. In Australia at least, they don't represent the downtrodden. Walsh later extended his contempt for the Country Party to the Democrats and Greens.

Hawke gave him responsibility through the Expenditure Review Committee for reviewing the financial implications of every Government policy. He had the backing

of a dry and competent department. Although the Coalition's backbench Dries had enjoyed the support of some of Fraser's ministers, they had never had the support of anyone with as clear an appreciation of what the Good Fight was for, comparable tenacity within the inner workings of Government, or Prime Ministerial support.

When Walsh wrote a political biography he called *Confessions of a Failed Finance Minister*, Rolf Gerritson, in its foreword, wrote that fiscal frugality and socio-economic equity obsessed Walsh. Walsh failed only by his own standards. From May of 1990, upon his leaving the ministry, he published a biting and witty column in the *Australian Financial Review* under the by-line *Cassandra*.

When I had the honour of being the only Liberal invited to Peter Walsh's farewell-to-Canberra party I had the opportunity to meet for the first time several of the officers from Finance. Their respect for Walsh was apparent; as was their sense that they had been part of a team that had won and lost in a worthy cause.

Walsh tells me that John Dawkins, his predecessor at Finance, was as tough but had had a harder task. John Button cared about economic efficiency and, although too inclined to address reform in corporatist ways, encouraged much industrial efficiency with commendable persistence. John Kerin came to the agriculture portfolio with an agricultural economist's rigour and distaste for rural marketing monopolies. Hawke was a superb team manger who ran Cabinet well and gave his abler ministers room to reform. Hubris was to undo Hawke and Keating, as it undid Thatcher, but in the meantime much was to be accomplished.

Hawke could articulate the benevolence of reform. Despite tiresomely emphasising the need for consensus, he proved to be a leader who changed public perceptions, if one who was content to allow his ministers to carry many of the arguments.

Like most leaders, Hawke misused his powers for ends that would not pass Revel's wide definition of politically corruption. The allocation of television licences, the Kodak subsidy and the favoured status of the Australian Council of Trade Unions (ACTU) are examples. He brought to national leadership the reputation of a hard-drinking loud-mouthed economically-disruptive ACTU leader. He was widely believed to be no paragon of personal virtue. He had a penchant for circuses such as the America's Cup. He kept company that was seen at the time to be dubious. He was easy to demonise and was loathed in some circles. Despite all of this baggage, he led a ministry that consciously and successfully encouraged Australians to sublimate their interests to their ideals. How the Hawkes and Reagans induce such behaviour and the circumstances that make it possible are among the more important so far unsatisfactorily answered questions of political science.

Corporatism

Hawke, however, began by instituting significant elements of a mode of governance that only half a century before had at least been associated with, if not a cause of, the descent of Italians and Germans into tyranny. Calling it 'consensus' and 'accord' he adopted in practice, but not in title, much of 'corporatism' or 'corporativism', which had been popular in the 1930s but discredited by its association with Fascism.

Italy formally adopted corporatism from 1925. Until then, under Finance Minister Alberto De Stefani, that nation had enjoyed liberal economic management. De Stefani had reduced taxes, regulations and trade restrictions and had allowed businesses to compete with each other. But his opposition to protection and business subsidies alienated industrial leaders, as advocacy of such policies has done at throughout most of Australia's history. He was forced to resign and Mussolini then developed the corporative state in which legislative bodies are composed of delegates from vocational organisations (functional groups) rather than of representatives of political parties elected from geographic districts. By 1939, Italian per capita private consumption had dropped below 1929 levels. Corporativism, none the less, had found favour in Italy, Spain, Portugal and Germany and to some extent with the Franklin Roosevelt administration in the United States. Mussolini regarded Roosevelt's New Deal as 'boldly … interventionist'.[256]

Denis Mack-Smith author of *Mussolini* wrote of Corporativism:

> One of Fascism's least uninteresting contributions to economic history is the corporative system by which it was intended to replace or transcend the out-of-date ideas of liberalism and socialism. The corporations...were trade unions that included both employers and employees. The expectation was that each corporation, as well as regulating its individual trade, would minimise industrial strife and mobilise productive potential in the interests of the whole community….This was an attractive suggestion, because a prolonged period of social peace would in theory enable Italy to maximise production and compete in international markets.
>
> Such a harmony of interest could, in [Mussolini's] view, survive only in a fascist system where 'the individual has no existence at all except in so far as he is subordinated to the needs of the state', where it would be for the state to prescribe a 'just wage' instead of relying on the laws of supply and demand.
>
> At first, a limited number of 'fascist strikes' were permitted to pressurise the captains of industry into accepting state control. Then in 1926 Mussolini created a special ministry of corporations and explained that a new corporative machinery, as well as fixing wages and conditions of work, would eventually regulate the whole economy.

Corporatism's no-more-satisfactory rival 'Communism' was not to lose its ideological appeal for more than forty years after formal adherence to corporatism ended abruptly in 1945. This essential feature of Fascism was, however, to outlast Communism, albeit in a piecemeal way. Since the war, Austria, Sweden, and Ireland have formally included some interest groups among those with legislative authority. In Australia, under 'The Accord' that sought legitimacy by way of 'summits', there was a period where the ACTU had what amounted to more than a seat at the Cabinet table – it was a seat with veto rights. In most western communities, Governments gave the representatives of at least unions and business preferred access to Government.

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[256] Sheldon Richman, *The Fortune Encyclopedia of Economics,* Warner Books, 1993, pp 115 - 117

Although corporatism was almost never defended by name, its practices were. In 1987 representatives of the ACTU toured Europe and reported to Australians in the document *Australia Reconstructed*. The Hawke and Keating Governments allowed most of its recommendations to wither on the vine and a joke did the rounds that the mission had purchased, no doubt at great expense, Mussolini's lost diary.

Australia Reconstructed advocated tripartite consultative and planning bodies. It went into ecstasies about the 'successful consensus based economies' of Sweden and Austria long after the gloss had gone off at least Sweden and its GDP per head had slipped below the OECD average.[257] The consensus eulogised was not between individuals, but between unions, representatives of management, and Government.

It said,

> A national agreement on industrial democracy between peak union and employer councils and the Government would provide the basis for subsequent industry and enterprise-level agreements... Employers and unions, as a matter of priority, must (my emphasis) then reach agreement... Legislation will also be necessary to provide a system of industrial democracy.

It called for the authority of the state to impose the consensus of the great organised collectives upon the small individuals and for a complex industry development plan, worked out between the big three but binding on everybody. Among other things, the plan would determine investment in new product, process and enterprise development, management and work practices, and training. The Foreign Investment Review board was to target foreign money to industries recommended by industry councils.

Sweden was performing at the time even worse than Australia. Denis Mack-Smith had written this about how Italian corporatism worked out:

> A plethoric corporate bureaucracy – with higher salaries than the civil service and often duplicating work done elsewhere – was already by 1930 becoming a grave burden on the national economy....Though lacking much substance, corporativism became a happy-hunting ground for place-seeking academics who endlessly discussed its theory and practice. They were helped when fascist economic theory was codified by Mussolini in the 'Charter of Labour'.... Every business and factory would be obliged – in theory – to hire labour from lists provided by the Government, and preference had to be given to Fascists.
>
> [By 1934] an expensive and cumbersome corporative bureaucracy had become a powerful vested interest that was determined to perpetuate itself, but its functions were not clear except that it cost a lot of money and sometimes acted to clog the wheels of industry.... Mussolini...supplanted them with alternative agencies that often cut across each other in a constricting administrative tangle.

Corporatism is not consistent with democracy. Every citizen is a member of some identifiable collective, but representation cannot be given to every group – some people are, therefore, inevitably more equal than others. In practice, only those with the ability to organise can be recognised. In practice, corporatism is the consensus of

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[257] Woodall, P, The Economist, 3 March 1990 cited by Costa & Duffy, *Labor, Prosperity and the Ninties,* The Federation Press, 1991, p 104

the powerful with the most powerful possessing effective veto powers. The ACTU, the Business Council, BHP, the AMSWU, Coles Myers, the Steel Council, the Arbitration Commission, The Australian Wheat Board, ACCOS, the various arts councils etc, etc, cannot represent rank and file Australians.

Dries, who are essentially pluralist, were consistently chary of Corporatist methods, but they were caught off-guard by events they had not anticipated. Some of us, a bit belatedly, with our tongues only gently in our cheeks, likened Australian Corporatism to Government by guilds and the practices of Tudor England.

The Prices and Incomes Accord and the Economic Summit

Like most professed socialists, the Labor Government would have liked to ease the economy out of recession by Keynesian means – that is, by increasing demand with public borrowing and reducing costs with unanticipated inflation. However, that was ruled out on two counts. One was that the markets were already awash with Government paper so that more could be sold only at higher interest rates that would depress activity. The other was that Australian inflation, which was already above that of our trading partners, was anticipated – there was thus no possibility of monetary illusion. Only policies that reduced real costs could work. The Treasury was firmly anti-Keynesian. Supply side reforms – tariff reduction, deregulation and privatisation – would in time raise productivity and thereby reduce unit costs, permitting higher living standards on a sustainable basis, but these policies had long lags. The Government's only possible recourse for the shorter term was real wage reduction.

With apparent initial success, Hawke tried to control potentially damaging wage pressures by striking the deal with the ACTU that became *The Accord.* It discounted minimum wages for the 10% devaluation of 1983 and for promised social-wage policies. The deal, which Ralph Willis had been trying to negotiate, had been signed in February as soon as Hawke won the ALP leadership. Peter Walsh says the ACTU wished to see Hawke replace Hayden as party leader and was 'at best disloyal to Hayden and at worst treacherous'. Graham Richardson confirms that view.[258] Much of the credit for turning the Labor Party from the wild-eyed visionaries who had governed from 1972 to 1975 into the party that in 1983 was fit for office must go to Bill Hayden. He deserved better.

The accord was corporatist and Coalition Dries doubted its wisdom but they said little initially. Corporatism was not an issue that they had adequately considered and they were in temporary disarray after the election, either having recently lost their seats or preoccupied with the immediate problems of Opposition . What is more, they appreciated that The Accord had changed Labor Party and union rhetoric. It formally recognised something Labor and the unions had vehemently been denying, namely, that, if unemployment and inflation were to be reduced, then the wages overhang had to be addressed. The senior members of the ALP and the unions had not in fact experienced Road-to-Damascus conversions, rather they had found an acceptable rationalisation for what they already knew. The union hierarchy also perceived a means of increasing its influence. At one point, the ACTU Secretary was brought into the budget process at the Cabinet table – a singular affront to the democratic representation of an equal citizenry.

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[258] Graham Richardson, *Whatever it Takes,* Bantam Books, 1994, p 111 to 118

Hawke had come to office promising 'consensus'. After the rancorous Fraser years this was well received but the consensus on offer was that of the influential – big Government, big business and big unions. In April, less than two months after its election, the Hawke Government stage-managed the *National Economic Summit*. Representatives of the Commonwealth and State Governments, unions, several large companies and organisations representing industry, farmers, miners, aborigines, welfare agencies, conservationists and ethnic communities met in the House of Representatives chamber. The term 'summit' and the venue were no doubt intended to flatter invitees whose blessings upon The Accord were sought. It was not a representative meeting but a highly theatrical gathering of the elite. Neville Wran, one of its better supporting cast, said its three issues were 'jobs, jobs, jobs'. Nevertheless, when Labor lost office over 12 years latter, inflation was down from around 8% to 2 to 3% for reasons that had nothing to do with the Summit, while unemployment had risen from about 10% to about 11%.

The Summit's one virtue was that contributed to public understanding of the nation's underlying economic problems. Its final communiqué was necessarily a generalised document open to a wide range of interpretation. Some, as might be expected, gave it self-serving 'spin', but others, such as the National Farmers' Federation, used the opportunity to direct attention to the fundamental causes of Australia's economic problems. Immediately after the conference, it issued a statement reminding us of authoritative statements that precluded the belief that fiscal or monetary stimulus could address these in the long term and of the need for international competitiveness.[259]

Simon Crean, then President of the ACTU, said, 'the Accord was struck between two partners but its implementation envisaged tripartism.'[260] It was much the most important tripartite arrangement but there were others such as the steel plan.

The business and union organisations had no mandate to trade off some community interests against others. At Hawke's first Summit almost every force that should countervail an overweening Government sat in the House of Representatives, their cooperation cheaply purchased for a semblance of authority. The Business Council of Australia did, however, specifically reject the tripartite approach. It was not, they correctly said, in the 'interests of a democratic market-based economy'. The consensus of the powerful usually degenerates into agreement about division of the spoils at the expense of all others. Nevertheless, since it is the powerful that most disrupt economies, especially in a country such as Australia that was already highly corporatist, reaching agreement over the spoils can, as it had in 1920s Italy, provide short-run efficiencies.

Noting these, some commentators contended that a free labour market and one dominated by a few powerful unions could both reduce unemployment whereas the intermediate position could not. The conventional wisdom of the time was that the Accord was delivering wage restraint at a time of poor productivity growth. Two

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[259] Michael Davidson, *Statement on the Outcome of the National Economic Conference,* 15 April, 1983.
[260] Edna Carew, *Keating – A Biography*, Allen & Unwin, 1998.

Treasury officers, Simes and Horne, however, threw doubt on even this by showing that:

- the greatest gains in real unit costs had been made during the period of the Fraser Government's so-called wages freeze; and
- given the state of the economy and the high level of unemployment, most, if not all, of the reduction in real wages after 1982-83 would have occurred even if there had been no Accord.

Michael Costa and Mark Duffy wrote in 1991:

> When account is taken of … international experience, the impact of double digit unemployment in Australia in the 1980s, the rapid decline of trade union membership and the increased use of common law and other legal remedies (such as 45D of the Trade Practices Act) in the industrial arena, it is extremely difficult to credit the Accord as being the major cause of Australia's recent wage moderation.

And more significantly:

> But in so far as real wage reduction is seen as 'success', the criteria for judging success requires re-examination. It is one thing to increase employment by continually cutting labour costs, but real 'success' should be determined by the rate at which both employment and wages rise.[261]

Of course! Hawke was successful, but not because of the Accord. It had aimed to reduce inflation and unemployment simultaneously and signally failed on both counts.

Africans have a saying: 'When elephants mate the grass gets crushed'. Before Hawke came to office, representatives of big companies, big unions, and industries had successfully waited on, fawned on, and threatened ministers, but the rhetoric of Liberal and Labor Governments had eschewed favouritism in principle. Hawke had tried to make a virtue of it.

Objections to the Accord concerned the longer term. Social contracts have a dreadful record, in which the British episode that ended with the 'winter of discontent' was but one failure. Union, employer and government representatives tend in relative privacy to serve not the whole community but their own narrower constituencies. A tripartite committee's survival depends upon it not doing anything that is unacceptable to one of its members. Each tripartite element, therefore, holds a veto. Inevitably they become concerned for their own continued authority. They try to control some variables but cannot control the dependent variables. Their economic distortions cause some people to lose and social friction, indeed anger, is inevitable. They become a club of increasing exclusivity with its own arcane knowledge – in Australia, the Industrial Relations Club is the most notorious.

Hawke's Accord extended Fraser's wages freeze but the benefits were short-run. By 1986, inflation was over 9%, unemployment was 8% and the A$ traded at 60 cents US, down from parity only four years before. Moody's downgraded Australian Government debt.

Budgetary Policy

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[261] Costa and Duffy *Labor, Prosperity and the Nineties,* The Federation Press, 1991, pp 83-86

On the Sunday following the election, John Stone, the Secretary to the Treasury had presented the incoming Government with the usual economic briefing. It estimated a $9.6 billion impending budget deficit. Of course, Hawke and Keating had had a very fair idea that the budget was out of control. Such things tend to be fairly open secrets. By telling the National Press Club before the election that, if the Fraser Government's budget deficit proved bigger than expected, he reserved the right to modify the ALP's policy, Hawke, anticipating victory, had positioned himself to break his party's irresponsible promises. His 'modification' was to prove radical.

After the Keating Government in 1996 also had misrepresented its budget position, Howard promised a *Charter of Budget Honesty* by which the electorate is acquainted with the state of fiscal management on the day the election is called and implemented the promise on gaining office. Some more cynical Dries ask, however, whether the nation is actually well served by a practice that denies incoming Governments an excuse to repudiate the nonsense they promise in Opposition. In the meantime, the Hawke Governments had begun the practice of publishing the forward estimates of budget outlays.

In May 1983 Keating presented the Government's first economic statement promising to attack the budget deficit. Edna Carew wrote:

> He was heard in silence at first, but the interjections mounted as he read the tougher parts. Hawke smiled throughout the hour-long presentation of the statement that signalled the birth of Labor's economic rationalists.[262]

I had lost my seat at the 1983 poll and I listened on the radio with a weird mix of delight and shame. For the first and almost the last time I wished I had been back in the House to soak up the atmosphere, sitting on the backbenches free to cheer when my colleagues groaned. After the dreadful 1982 budget I had called on the Government to bring down such a statement, to run full term and to hope. Mice, however, roar to such little effect that the Government had added a further $300 million to the projected deficit.

Keating's mini-budget was for the main part a catalogue of expenditure savings and eliminated tax breaks that the previous Government should have made. What was more, the savings benefited future budgets. Rushed and inadequate to the task though it was, it was far better than the puerile efforts of our Razor Gang. Along with smaller savings, it undertook to means test the over-70s pension and, in spite of union opposition, to start to take away the benefits of occupational superannuants who got two bites, so called double dipping. In effect, it scrapped the Commonwealth commitment to the Darwin to Alice Springs rail line and the bicentennial water program, capital outlays that could not have withstood rigorous cost-benefit tests.

Following the rhetoric of the May statement, the 1983/84 budget figures were disappointing but that budget did introduce an assets test on the pension and extend the incomes test to people over 70. As existing benefits were preserved (grandfathered), the gains accrued to future budgets. This Government was looking ahead! Over furious union opposition, it taxed lump sum superannuation payments.

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[262] Edna Carew, *Keating – A Biography*, Allen & Unwin, 1998, p 89

The 1984/85 budget increased commonwealth outlays to a record 31.1% of GDP.[263] Nevertheless, by taking advantage of annual economic growth of about 4% and by discipline, the deficits were turned to substantial surpluses in 1987/88, 88/89 and 89/90, only for that advantage to be squandered at the end of the decade. By 1989, Commonwealth outlays had been reduced from 29.9% at the time of the last Fraser budget to 24% of GDP.[264]

Governments find expenditure discipline difficult. Every outlay has champions. Some ministers are team players giving up their preferred programs in favour of an agreed bottom line. Others defend their departments' empires with spurious arguments or advance token or phoney cuts that yield little or nothing. Rarely can the necessary savings be made from a few dramatic cuts. Unlike businesses, Governments do not have a simple goal. In politics, personalities and ideological preference always intrude. Australia was fortunate in Peter Walsh. Three contrasting examples, each taken from his memoirs, illustrate budget trimming.

For political reasons, Labor grandfathered the pension rights of those already in receipt of a pension but it did deny the asset- and means-tested free benefit to future applicants. When Labor won the following election it gave the lie to the political myth that a Government cannot take away a pension right and expect to survive.

To encourage Australian filmmaking, investors had been permitted by the Fraser Government to deduct 150% of their investments from taxable income. Many of the resulting films were commercially unsuccessful. To a chorus of screams from the arts community, this was reduced to 133%, to125% and finally to 100% with a $90 million budget subsidy in 1988. The $90 million was phased down in later years.[265]

The wine industry had long enjoyed the favour of Federal Governments, a favour that much displeased the more heavily taxed beer and whisky manufacturers. As working-class people tend to be the beer drinkers, the tax differential between beer and wine was regressive. Fraser and some members of his backbench and ministry had fancied themselves as wine buffs. To listen to them talk was to get the impression that they believed that improving the quality of Australian wine was a moral imperative, justifying the picking of winners.

In the face of predictions that the industry would be destroyed, the 1984 budget provided for a 10% sales tax on wine.[266] At the following election, the Barossa Valley was one of the few places that the Labor vote actually increased and the wine industry has prospered. Ironically from my point of view, the wine industry has in fact been a spectacular winner. The captains of industry complain that politicians in Canberra know little of the real world. There is some truth in that criticism but the main reason that industry captains are not listened to is that politicians have difficulty sorting their truths from the lies.

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[263] David Barnett, *John Howard*, Viking Press, 1997, p 2 73
[264] ibid, p 302
[265] Peter Walsh, *Confessions of a failed Finance Minister*, Random House, 1995, p 116
[266] ibid, p 119

Some outlays came from left field. A Repetitive Strain Injury (RSI) epidemic started in the Victorian Division of Australian Tax Office. For some time the Murray River seemed to be a barrier to its spread but once in NSW it spread as rapidly there as it had in Victoria. It was seven times more prevalent in the public sector than in the private and the Clerical and Administrative Officers Association was no doubt a significant vector. The episode demonstrated the unwisdom of asking doctors to protect taxpayers.

Others were built into the system. One of these was ever-increasing transfers to the Northern Territory administration. Another was the rules of MPs retirement allowances enacted in 1979 and known unofficially as the McMahon/Cameron amendment after its principal sponsors. It allowed MPs of any age upon retirement or defeat to commute their entire pensions and for a surviving spouse to receive 5/6 of the would-have-been pension upon the ex-MP's death. Labor was able to do something about the Northern Territory but, because caucus support was wanting, the second was to haunt the Howard Government years later.

Peter Walsh tried to get his party to accept that free tertiary education was a middle-class rip-off and that tertiary fees should be reintroduced. Initially the idea was rejected but in due course the HEC Scheme, which gave tertiary students access to subsidised Government loans with which to pay heavily subsidised fees, was adopted. Fifteen years later the Howard Government could not muster the courage to apply a means-tested commercial rate of interest to HEC loans.

During the 1984 election campaign, Hawke promised the electorate that expenditure, the deficit and revenue would not be increased as a proportion of GDP in the life of the next parliament – 'the trilogy'. The tax cap was broken in each of the three budgets but, as in several OECD countries of the time, expenditure and the deficit were reduced. The dry fiscal agenda was becoming *de rigueur* electorally and the 1985 budget saw what was the beginning of a period of exceptional discipline that was given greater effect the following year and greater again the year after that.

In 1986 a currency crisis had salutatory consequences. When the budget had been almost put to bed, the Expenditure Review Committee returned to budget cutting. To appease the financial markets it aimed for zero real expenditure growth.[267] In the event, Commonwealth real-terms outlays came in at 0.2% negative and as a proportion of GDP 0.7% negative. The deficit was reduced to 1% of GDP. The introduction of an 'administrative charge' for higher education was one of the late savings. It returned only $58 million to the Treasury but was an important first step toward more equitable and more efficient higher education – an important dry gain.

The political climate for tougher fiscal action had been achieved and by the time of the 1987-88 budget the Hawke Governments had cut $2.5 billion, net of new commitments, from outlays. The discipline produced a budget surplus that, with a recovering economy, rose to 2.2% of GDP in 1989-90. That was, however, according to Walsh, to be the last year of rigorous fiscal discipline. In defence of that contention he cites the Family Allowance Supplement that followed a rash promise by Hawke

[267] Peter Walsh, *Confessions of a failed Finance Minister*, Random House, 1995, p 152

that no Australian child would live in poverty. It had not been thought through and, 'for feminist ideological reasons related to the supporting parents' benefit', the Government set the income cut off point not far below average weekly earnings. It was so badly designed that its withdrawal combined with the withdrawal of Medicare benefits caused there to be a point in the tax scale where an income increase actually caused taxpayers to have 10% less to spend – an effective marginal tax rate of 110%.[268]

The 1987 budget, that had provided for approximate balance, in the event, produced a surplus of a little over $2 billion. The May 1988 Economic Statement reduced outlays by 1.5% in real terms but principally at the expense of the States.[269] Otherwise it focussed less on outlays but it did end fertiliser subsidies. This saved only $50 million but it was significant because the National Farmers' Federation accepted the cut without complaint as part of the Government's drive to lower protection. Other sectional lobbies, if put to the test, might behave as well.

At first, the 1987 budget was reported almost entirely in terms of the Government's choosing, but a week after it was delivered Walsh let fly in public saying what might have been. The burden of his remarks was that more fiscal restraint was needed if Australians were to be reasonably sure that the debt would not become insupportable. He raised the spectre, in the event of poor commodity prices, of the International Monetary Fund knocking on our door. Many sources including the think tanks and the Leader of Opposition had made the same point and back-of-an-envelope calculations could confirm its approximate truth. If these had been widely reported Walsh would not have felt a need to speak out, yet he was roundly criticised by the media, not for being wrong, but for speaking out of turn. Amid all the speculation about the political consequences of his words, their truth or falsity was barely discussed. The media told us that Walsh had put an end to the budget's dream run. They reported Mr Keating's anger on the front page as though the state of his liver mattered more than economic prospects. Senator Walsh's effect upon the morale and electoral prospects of the Government, the Opposition, and his own prospects was written about at length and well, yet it did not occur to editors that, while who governs is important to politicians, how they govern is more important to the rest of us. Journalists remind us that informed evaluation by a free and competent press is central to democracy; it is a great pity that they so often do not provide it.

The 1988 budget provided for a surplus of $5.5 billion that was achieved, and the 1989 budget sought a surplus of $9.1 billion[270] that fell only $1 billion short.

The Government was, in Peter Walsh's judgement, by then reaping the rewards of past discipline. During this period of high Commonwealth surpluses Australia experienced the highest employment growth since reliable records had been kept. It was a time when the worldwide economy faired well, nevertheless, so much for Keynesian pump priming. I recalled a briefing by John Stone at which he had asserted that, if Fraser were to cut the deficit, employment would almost certainly improve. I also recalled my misplaced scepticism.

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[268] ibid, p 178-9
[269] David Barnett, *John Howard*, Viking Press, 1997, p 500
[270] David Barnett, *John Howard*, Viking Press, 1997 p 555

The extent to which fiscal discipline deteriorated is demonstrated by an episode concerning the taxation of part-pensioners. The 1989 budget included a statement that beyond 1995 no aged pensioner would pay tax. It was an irresponsible promise because its cost to revenue was excessive and it would have meant that some people owning a house, a car, $170,000 in the bank and a cash income of $31,000 would be exempt from tax. It was disingenuous because no Government would deliver such nonsense. The promise re-emerged during the 1993 election campaign but received only four lines of press and was not noticed by the Opposition.

In constant 1984-85 dollars, the last McMahon budget had spent $2700 per Australian, the last Whitlam budget: $3450, the last Fraser budget: $3650. The 1989-90 Hawke budget had called for per capita expenditure of $3800. The election campaign, nevertheless, committed Labor to new expenditure of only a small $346 million in the first year 'all ostensibly offset by either savings or revenue enhancement.'[271] Because of the coup by which Peacock took the leadership of the Liberal Party from Howard and revelations about how it was conducted, Hawke did not fear losing the election and was not as tempted to make populist commitments as he might have been.

With the economy in recession the 1990 budget, however, called for a 4.9% increase in real outlays and produced a surplus of only $1.9 billion, down from $8 billion in the previous year and $5.9 billion two years before. In 1991-92, real outlays were increased by a further 5.4%, although only a 2.6% increase had been budgeted. In 1992-93 they were increased again by a further real 5.6%, most of it having been caused by decisions taken in the previous year. Peter Walsh wrote of the period:

> Aggregate outlays figures, especially year on year, can be distorted by asset sales, capital repayments, classification changes, one-off payments and, of course, the business cycle. But even after allowing for all of those the early 1990s were an undisciplined period….[272]

He was in a better position than most to comment.

As the economy slid into recession, the fiscal prudence of earlier years had stood by the Government but too much of the new expenditure called for on-going outlays and too much had too little to do with economic activity and employment. For instance, the Human Rights and Equal Opportunity Commission had its budget increased from $7.7 to over $17 million during this period. The Better Cities program, to cost $650 million over four years, was founded on the false premise that people did not wish to live in the outer suburbs and called for expenditure well beyond the likely duration of the recession.

The Financial System

Treasury's 1983 post-election briefing had informed the new Government that in expectation of devaluation $3 billion had left Australia in five weeks, $2 billion of it in the last hectic days of the campaign. The Government responded with a 10% devaluation. The extent, if not the fact, of the outflow was probably a surprise. Like

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[271] ibid, p 225

[272] Peter Walsh, *Confessions of a Failed Finance Minister*, Random House, 1995, p 239

the then projected $9.6 billion deficit, the devaluation was employed by Hawke to justify repudiating populist election promises. There was a 'crisis' and caucus would just have to wear its consequences.

I doubt whether members of the 1983 Cabinet could today say to what extent they were creatures of the circumstances and to what extent they exploited them to provide the sort of Government that they wanted. It hardly matters. They acted skilfully as well as responsibly and were able to distinguish good advice from bad.

Defending the currency had not been an option. The issue had been by how much to devalue. Although the devaluation stopped the immediate capital flight it could not prevent future speculators reaping easy profits. That banks should make easy profits was anathema to caucus. Not wishing again to be faced with a similar situation or its converse, an up-valuation, either of which would leave a Government with no option but to confirm speculators' profits and Reserve Bank (ie. public) losses, Hawke took a further step toward a freely floating currency. He introduced a 'moving peg' by which at the start of each day the Reserve Bank announced the price at which it would buy the $A and another at which it would sell.

In Opposition, Labor had damned the Campbell Committee Report but the Treasurer now announced the formation of the Martin Committee to review it and to recommend policy for the financial system. The Martin Committee was, as Keating himself said, intended to get the Campbell debate back on the table.[273] Expressed more cynically, it was intended to present Campbell's recommendations in a light that Labor could accept. Martin reported in February 1984.

Two months before he reported, however, the Government dramatically floated the Australian dollar and removed all exchange controls except those concerning a few tax havens. The Fraser Government had already removed controls on several important interest rates including bank deposits. Changing technology, the international affiliations of the merchant banks, and access to the international banking system enabled immediate transfer of very considerable sums. The 'peg', although it prevented the currency getting way out of line, did not prevent all one-sided speculation.

Some economic irrationalists argued that, if the currency had not been floated, then exchange rate risk was eliminated – as if Canute could have stopped the tide! The choice was between an $A changing its value minute by minute or changing in larger licks periodically.

Floating the dollar gave the Reserve Bank better control over domestic monetary policy and ability to protect Australia against imported inflation. Even so, the irrationalists argued that Australia was giving away control over domestic policy. In a perverse way they made a point. Most obviously, a floating currency tends to signal that a Government has set interest rates inappropriately or spent profligately – not uncommon pre-election behaviour. Moreover, over a slightly longer run, all forms of irresponsible or corrupt Government tend to be reflected in weakening currencies. After all, the wise currency trader tries to factor in everything that will affect future

[273] Edna Carew, *Keating – A Biography*, Allen & Unwin, 1998, p 91

economic performance and there is little that is more important to that than the quality of Governments, and Oppositions too if they look like winning. Thus a floating currency tends to more quickly expose all bad governance including the nasty little deals between Governments and vested interests that so weaken economies. Floating currencies deny policy-makers as much separation of cause from effect as is afforded by fixed exchange rates. They, consequently, find it more difficult to do unconscionable or foolish things. It was a pity that the irrationalists had not explained themselves more fully.

Nevertheless, because the Australian dollar is so heavily affected by our terms of trade – that is, the ratio of the prices at which we buy and sell in overseas markets – too much that is political should not be read into every movement. All a Government can do to improve the terms of trade is to deregulate and remove trade barriers, allowing us to adopt the activities that offer the best possible terms, and to improve productivity wherever it can. At the political level, the float obviated attempts to hold the dollar at inappropriate levels and unseemly arguments such as had occurred prior to the 1972 election and after the 1975 election.

A market-determined currency had been recommended by Campbell and it was, be it admitted, mainly on this count that it was preferred by most Dries, although they had maintained a consistent scepticism of the ability of committees to determine any price including that of money. Today few people question the wisdom of floating the dollar but at the time the policy change was viewed with trepidation by some, including the Secretary to the Treasury. A rate of exchange fixed to any reliably-managed widely-traded currency, such as the US dollar, or a common currency such as the Euro, is not necessarily wet. Indeed, such policies place great pressures on Governments to manage their micro-economies well if they do not wish to suffer a flight of capital and ultimately of even their citizens. New Zealand has experienced this effect.

Although the timing of the float and abandoning of exchange controls had been determined by events, their fact had not. Under Hawke and Keating, the Government and the Reserve Bank with its dry governor, Bob Johnson, were actively working toward an A$ valued by the market. In October some technical changes had been made and the forward market had been de-controlled. Deregulation was being pursued methodically and persistently. During the year following the float the Treasurer wallowed in more praise than normally surrounds any peacetime politician.

Nevertheless, by mid-1984 the A$ had fallen heavily.[274] Keating cited the declining dollar as evidence that further reform was needed.

In January 1984, the Government invited foreign banks to apply for Australian banking licenses. In June it announced that 40 non-bank financial institutions could deal in foreign currency. In August, it permitted banks to pay interest upon cheque accounts and on funds taken for less than 14 days, lifted the foreign investment guidelines for merchant banks and raised the maximum individual shareholding in trading banks from 10% to 15%. It also abolished the so called 20/30 rule that required life insurance and pension funds to hold 30% of their assets in public securities and 20% in Commonwealth securities. In September, applications were

[274] David Barnett, *John Howard*, Viking Press, 1997, p 289

called for further bank licenses[275] and, in February 1985, the Treasurer announced Government approval of 16 new trading bank licences. The Martin Report had recommended six but Keating regarded the greater number not as selling out to the financiers but as bringing much needed competition to them from which borrowers and lenders could but benefit.[276] In April, Keating announced the deregulation of small bank loans, leaving only bank housing loans regulated.[277]

In April 1986, interest rates on new home loans were finally deregulated. This was a major victory for Keating. It also vindicated Howard who had long argued such a course.[278] During the next year, restrictions on foreign investment in insurance and stockbroking were removed. In January 1988, the Government lifted the foreign investment guidelines on investment in oil and gas projects.[279] The Campbell recommendations were almost all in place.

Edna Carew wrote quoting Paul Keating:[280]

> [Keating] explained moves to deregulate the finance industry and reform the tax system as part of Labor's strategy for achieving economic growth; they were not, as some had accused, a sign that Labor was adopting conservative, right-wing thinking.
>
> > I maintain today that in continuing this growth objective, the Hawke Labor Government is operating completely in concert with the tradition of the Labor movement … in adopting practical, pragmatic measures to create growth and jobs, the Labor Party of 1985 is doing nothing out of the ordinary from what the Labor Party in Government has sought to do throughout its long history. Those who allege that the current administration has questionable Labor credentials fail to understand the very essence of the Labor tradition and have been misled into thinking that the views and objectives of that developed in the party's aberrant period of the 1950s and 1960s more correctly reflect the party's true direction.

Keating was disingenuous in his exclusion of the 1970s but, given the political exigencies, he may perhaps be excused that fudge.

Taxation

Labor had been highly critical of the Fraser Government for allowing income tax avoidance, implying that the Government had been in bed with wealthy mates. It, however, despite union opposition, began its own attacks on tax avoidance by taxing newly accruing lump-sum superannuation payments at 30%.[281] Reducing tax minimisation is, moreover, like squeezing a balloon – each area of correction encourages new avoidance techniques to bulge out elsewhere.

After the 'success' of the economic summit in April 1983 the Government organised a

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[275] Edna Carew*, Keating – A Biography*, Allen & Unwin, 1998, p 111
[276] ibid, p 135
[277] David Barnett, *John Howard*, Viking Press, 1997, p 296
[278] My diary, 8 April 1986
[279] Edna Carew, *Keating – A Biography*, Allen & Unwin, 1998, p 220
[280] Edna Carew, *Keating – A Biography*, Allen & Unwin, 1988, p 145
[281] 15% for the first $50,000 of persons over 55 years old.

Tax Summit at which three (of an original nine) alternative proposals for a reformed tax system were considered. The Treasurer championed 'Option C' calling for several measures to broaden the income tax base and for a 12.5% broad-based consumption tax. This was defeated by the clamour of interest groups and Hawke's fear of the electoral consequences. Because the business community were known to be the main proponents of tax reform, when Bob White on behalf of the Business Council demanded more than business deserved or might reasonably expect, others, most importantly the ACTU, were quick to follow and any workable package was dead. Hawke abandoned his Treasurer and 'Option C', stitching up a deal with Simon Crean and Bill Kelty. It was not his finest hour!

Many people, among whom John Stone is one, fear consumption taxation because they do not trust Governments with easy revenue. However, the welfare sector's opposition to a consumption tax, accompanied by compensation for low-income people so that the package is not regressive, was not as easily understood. A bigger, better-financed welfare sector is more likely to be achieved with a bigger, better-paying tax base. Its representatives' objection can have been neither to indirect taxation nor to regressive taxation. The tariff is both indirect and regressive and the most regressive taxes are those levied on cigarettes, beer and poker machines. The motives of those who selectively object to indirect taxes must be questioned.

Like the cast of a Greek tragedy, Tax Summit participants remained true to their flawed characters destroying something that most of them wanted then or came to want within a few years. Keating should have anticipated the selfishness and political incompetence of the business community – the heavens know that federal politicians often remark upon both. Yet, while he worked in detail with the ACTU, he did little to ensure that the business sector did not destroy his summit in a manner that was foreseeable.

Although the Tax Summit agreed on little else, it reaffirmed that the Australian tax system was a mess needing radical reform, and the Government spuriously claimed a mandate for 'Option A'. This proposed taxing the advantages of negative gearing of rental property, fringe benefits, real capital gains, income earned from gold mining, and inheritances, and imposing tougher substantiation rules for tax deductions. Howard had supported 'Option C' from the Opposition benches and Hawke and Keating ought to have appreciated his integrity.

In September 1985, the Government announced a package that contained the revenue enhancing measures of Option A, principally the fringe benefit, negative gearing, and capital gains taxation provisions, but not death duties or income earned from gold mining. The package also reduced income taxes in two steps taken at 1 December 1986 and 1 July 1987. It, however, raised taxpayers' already high compliance costs. The Government raised the company tax rate from 46 cents to 49 cents and provided that income taxes paid by companies (company tax) would be allowed as credits against dividend income in shareholders' hands. Dividend imputation, as this last provision was called, effectively ended the double taxation of most dividends. The negative gearing measures were reversed in 1987.

Graham Richardson wrote:

> To salvage this from the wrecked tax cart of a few months previously was

> Keating's finest hour.… Unpalatable medicine was credible for the first time in my political life: if times were tough, we did not have to promise rose gardens. The rules of the game underwent fundamental change, and Australia actually began to see that promising a big bag of lollies every election wasn't the only way for political leaders to behave.[282]

Although I believe Richardson exemplified much that was wrong with Australian politics few doubt his appreciation of political advantage. By argument and example the Government had in remarkably short order changed the way the public viewed public policy.

The tax changes were important, but what were Dries to make of them? They differed on the loss of the broad-based consumption tax. To this day, some believe that consumption taxation offers profligate Governments too much money too easily while others believe that its alternative, income tax collected at high rates, has compliance costs that are too high and is too easily avoided to be tolerated.

They were unimpressed by the promise of income tax cuts. First outlays should be controlled and there was then still a deficit at a point in the business cycle when the budget should have been in surplus. They further deplored the practice of announcing tax cuts for future budgets – time enough for those when it is known that they can be afforded.

Dries were agreed that revenue should be raised by a tax system that was as neutral between economic activities as possible. They were not, therefore, to be heard joining the general clamour opposing the fringe benefits tax, the taxing of real capital gains and the taxing of sub-contractors' incomes at source. They, however, protested the deal with the unions to tax fringe benefits from the employer rather than the recipient of the benefit. (In the long run it makes little difference where the liability rests but in the short run it increased costs and unemployment.)

From the dry perspective, the big gain was the item that did not arise from Option A, namely, elimination of the double taxation of dividends. This was an important step in the direction of economic neutrality and hence efficiency. It also, moreover, was a measure affecting only future budgets.

The summit both advanced and set back the course of tax reform. It did much to increase understanding of both tax and politics. When John Hewson advocated what was essentially Option C, Keating would employ his appreciation of the forces that could be marshalled against tax reform with breathtaking cynicism. ACOSS eventually came around to the common sense opinion that its clientele would benefit from a consumption tax. The BCA learned that blatant pursuit of business interests ahead of those of the Australian community can foul its nest.

Finally, in 1990, gold was brought into the standard tax net. Peter Walsh's comments are too good not to quote:

> Despite steadily falling real prices, gold production is higher now than it has ever been. As usually happens when Governments take on the spivs, rent-seekers and

[282] Graham Richardson, *Whatever it Takes,* Bantam Books, 1994, p 186

special pleaders these were proven wrong.[283]
Few of those I most clashed with over gold tax were spivs, but rent-seekers and special pleaders they certainly were.

In 1988, the Treasurer used the by then customary May Statement to announce a cut in the corporate tax rate to 39% and the taxing of income earned from superannuation funds.[284]

Welfare
The ratio of people in receipt of unemployment benefits to those recorded as unemployed in Australian Bureau of Statistics surveys had risen from 94% to 116%. It was to peak at 124% one year later. It seemed that a lot of the people collecting unemployment benefits were either employed or collecting more than once. All that the Government did at this point was to require dole recipients to collect their benefit in person. This simple measure saved the taxpayers $600 to $700 million dollars per year or $1000 million if the calculation is made using the 124% figure.[285]

A year later Labor took further strides towards needs-based welfare by abolishing unemployment benefits for 16 and 17-year-olds, means-testing family allowances and welfare payments and scrapping some costly and ineffectual short-term job creation schemes. Keating was praised by the media for being tough but fair, as indeed the package was.[286] Labor won the Federal election only eight weeks later.

This package had borrowed heavily from leaked Opposition policy documents and also it gave staff at the AIPP the opportunity to tick off several recommendations it had made in *Mandate to Govern*.[287]

Banana Republic
During the second half of the 1980s Australia's terms of trade turned sharply down, the current account deficit was 6% of GDP and the Australian dollar slid below US60 cents and a trade-weighted index of 50.

Within a few weeks of his retirement as Secretary to the Treasury in August 1984, John Stone told of how Professor Shann had warned Australians in 1927 that mounting debt was about to plague them as it had in the 1890s crash. The parallels drawn first by Shann and extended by Stone were sobering and of a type that were readily appreciated by lay-people. Dries agreed that, if the capital inflow that was the counterpart of the current account deficit financed investments that would remain profitable in hard times, then it was probably a good thing that Australia could attract it. Many, however, believed that in the 1980s it was being diverted, via the tax and welfare system, protected industry and the sloppy business practices now known as

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[283] Peter Walsh, *Confessions of a Failed Finance Minister*, Random House, 1995, p 147
[284] Edna Carew, *Keating – A Biography*, Allen & Unwin, 1988, pp 225/6
[285] Peter Walsh, *Confessions of a failed Finance Minister*, Random House, 1995, p 156
[286] David Barnett, *John Howard*, Viking Press, 1997, p 449
[287] John Nurick editor, Mandate to Govern, AIPP and Australian Chamber of Commerce, 1987

'the 1980s excesses', into current consumption and poor quality assets. Australians' unwillingness to save worried everybody.

Fears about the ability of the Australian economy to service its mounting debt put pressure on the Australian currency. As the A$ fell against the US$, the cost of servicing those debts denominated in US$ increased.

In May 1986, John Laws interviewed Keating on radio. Keating warned of Australia becoming a banana republic. It was gross hyperbole for which he was roundly criticised. The situation was serious but Australia was far from becoming a banana republic. He no doubt had a more spectacular effect than he intended, which was probably nothing more than to generate a sense or urgency. A run on the dollar and a spat with the Prime Minister, nevertheless, proved passing phenomena, while the effects of the exaggeration upon business lobbies, the trade unions, the states and the caucus were more lasting. In the short run, by moderating union demands, it avoided some unnecessary unemployment, and enabled Keating to take a tougher stance with the Premiers and the big spenders in Cabinet and caucus. When in August Moodys downgraded the Australian Government's AAA credit rating the message was reinforced.

Australia's problem was chronic, not critical. In the unlikely event of our continuing to ignore it as we accelerated down what becomes a slippery slide, we would have eventually ended up with the sort of economy suffered by some Latin American states. I have sufficient confidence in the Australian electorate to think that, as we approached banana-republic economic status, we would have found our own Margaret Thatcher or Roger Douglas. There was, however, no good reason to await that day, courting the risk of war or global depression precipitating a real economic crisis.

In spite of his own and others' doubts about its wisdom,[288] Keating's banana republic interview enhanced his beneficial influence. By overstating his case at a critical point he changed Australians' appreciation of their real long-term problem. If intentional, it was courageous and contrasts with the damage to public understanding that he was to do during the 1993 campaign to defeat Hewson and Fightback and his later loose fiscal management.

Four months after Keating's banana republic comment, the International Monetary Fund sent Helen Junz to report on Australia. She reported in February of 1987 painting a fairly black picture of uncompetitive industry, fleeing capital and rising foreign debt and was particularly critical of the slow pace of productivity-enhancing reforms, condemning wages policy and the Accord.[289]

Trade and Industry Policy

The Hawke Governments' most principled and courageous reforms were with trade and industry policy. Nevertheless, despite their denying privileges to industries, they on three occasions gave substantial privileges to individual companies. When the Prime Minister, without prior reference to Cabinet, promised $60 million of the taxpayers' money to Kodak, a company in his own electorate, his lapse from principle

[288] Edna Carew, *Keating – A Biography*, Allen & Unwin, 1988, p 158
[289] David Barnett, *John Howard*, Viking Press, 1997, p 480

was on a par with the Woodsreef episode by the Fraser Government. Neither did the 1992 subsidy to a German company for a wool-scouring plant in Geelong or the $30 million paid to assist Du Pont to buy out Fibremakers' textile operations stand to Hawke's credit.[290] Despite these lapses his Governments' record is impressive.

John Button developed adjustment packages for separate industry constituencies. The most important of these was the so-called Button Plan for the motor industry of 1984 when by persuasion, threat (made credible by the Hawke/Keating tariff reductions) and selective subsidy (bribery) he induced management and unions to accept changes in investment and work practices. The initial reforms were no doubt rather obvious, but a drier minister might have doubted his capacity to tell industry and union managements how to do their respective jobs or used his powers to give effect to their wishes.

Button possessed a delightful candour illustrated by his statement to the Senate of 5 June 1987:

> The Australian TCF [textiles, clothing and footwear] industries are still protected by quantitative restrictions in addition to tariff duties which are extremely high by comparison with those assisting most other Australian industries….
>
> The high level of protection around these industries has probably diminished their entrepreneurial and competitive spirit. A significant portion of the industry has chosen to concentrate in areas in which they are least competitive on the world scene (ie the low cost, standardised products in which low wage sources predominate.) …
>
> An unfortunate feature of the industries has been their dependence upon Government decision-making. I recognise that this has in part been fostered by Government's willingness to provide support almost whenever requested by the industry.
>
> This Government is prepared to face up to its responsibilities in respect to past mistakes in policy for the TCF industry.

In contrast to Button's industry plans, there was little corporatist about the Treasurer's May 1988 economic statement. At that time the IAC estimated that protecting the TCF industries alone imposed a regressive annual tax of $1.5 billion. Passenger motor vehicle (PMV) protection was probably less regressive, but it taxed at a similar magnitude. The 1987-88 IAC Annual Report quantified the taxation effect of all protection at a massive 6.2% of household expenditure. These taxes did not appear in the budget and they did not finance public expenditures. They were paid through higher prices to privileged shareholders and employees – in the case of motor vehicles to foreign shareholders.

Taking advantage of the 'protection' afforded local manufactures by the declining value of the A$, the Government announced reduced tariffs. All industries that enjoyed tariffs above 15%, other than PMV and TCF, would have these reduced to

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[290] Peter Walsh, *Confessions of a Failed Finance Minister*, Random House, 1995, p 216

15%. Tariffs between 10% and 15% would be reduced to 10%. It was announced that PMV tariffs would phase down to 35% and TCF to 55%. PMV quotas would be scrapped. The package was sweetened by reducing the company tax rate from 49% to 39%.[291] Tariffs were reduced across the board and by pre-announced modest steps as Dries had always recommended. It was a bold move opposed by trade unions but consistent with the egalitarian traditions of the Labor Party.

The 1987-88 IAC Report was able to report the first real progress since the 25% tariff cut. The 6.2% consumer tax imposed by protection was expected to fall to 4.4% by the mid-1990s as a result of the then current programs of assistance reduction. Gutsy political leadership had changed the protection debate from arguments about whether protection should be reduced to arguments about 'how fast'. The next IAC motor vehicle inquiry (1990) would receive a joint submission from the car industry that accepted further tariff reductions but pointed out cost impediments to manufacturing in Australia, many resulting from Government policies.

Had the PMV quotas continued, new uneconomic practices would have grown up. As it was, the car industry's capacity to pass costs to other industries had been much curtailed. Because the Yen was the currency that most affected the car industry and the industry had benefited from real effective depreciation of the A$ against the Yen of some 40%, a 22% tariff reduction was not as brave as it looked. Nevertheless, it was a huge step. The Opposition, the companies and the Vehicle Builders Union all reacted in a responsible manner. That the last two did so reflected credit on Button's negotiating skills, Keating's rhetoric and patient explanation by the IAC and the dry economists then advising the industry. Leadership had taken the debate a long way.

Button's second reading speech to the Textile, Clothing and Footwear Development Authority Bill (part of the corporatist baggage) very properly told the TCF people that their plan was not immutable. Senator Austin Lewis who led for the Opposition departed from the Opposition's mostly responsible approach, saying that it was 'Australia's fault' that wages were high. He seemed not to understand that the Minister's aim was a low-cost industry that would sustain high living standards, rather than low personal incomes that would sustain an otherwise uncompetitive industry. From a dry perspective industry plans were not the ideal way to proceed but Button's goal was without doubt the right one.

Although Button's steel plan, discussed in Chapter 6, probably delayed the inevitable closure of the Newcastle steel plant, many count it a success. When Labor won in 1983 the industry was in a sorry state. Although its condition would eventually have forced drastic action upon even BHP's management, the press and Peter Walsh, who is fairly hard headed about such matters, credited Button with persuading the company to undertake a major investment program and the unions to accept elimination of the worst of the overmanning. The Government introduced a potentially expensive steel production bounty that I regarded with horror. Subsidies were, however, inversely related to sales and ultimately cost less than expected. Within three years, production had increased by 50%, but productivity was still 23% to 30% below the best overseas mills. The economist with the Business Council, Peter McLaughlin, said, 'The virtue of the steel plan in BHP was that it helped in the initial

[291] David Barnett, *John Howard*, Viking Press, 1997, p 500

stages to transform attitudes but it became, before the end, dead weight'.[292] I suspect he was right on both counts.

Button also persuaded the States to abandon their costly State-preference arrangements.[293]

The Hawke Government commissioned two reports that advanced the case for an open economy. Helen Hughes reported on exports and barriers to exporting, stressing among other things the want of an export culture. She painted a picture of our children taking table-waiting jobs in Singapore.

The other, *Australia and the North East Asian Ascendancy,* the Garnaut Report, was one of those few reports that, like Brigden and Campbell, determined a significant part of the future. Ross Garnaut, academic, former Ambassador to China and Prime Ministerial adviser, was asked to:

> recommend on policy and other responses which would increase the economic, political and wider benefits and reduce the costs to Australians of East Asia's continuing economic growth and structural change.

Garnaut had engineered the opportunity and he did not waste it. That his report came down in the wake of the collapse of the Berlin Wall added to its impact. Although nominally about Australia relations with China (and Taiwan), Japan and Korea, its most important policy recommendations would have benefited Australia had North East Asia been irrelevant. Garnaut asserted:

> …the beginning of internationalisation and liberalisation of economic life has established an economic, political and intellectual base from which, for the first time this century, it is possible for Australians to seek first best outcomes....The tide has turned through the 1980s, although we carry still most of the dead weight of a protectionist past….Through the 1990s, Australians … will choose whether they step out in new, more hopeful directions….There is no inevitability of success.
>
> From 1974 the promise of the late 1960s descended into almost a decade of stagnation, high and rising unemployment, inflation and disillusionment[294] …. Australia's advantages are this time a wider community perception of the magnitude and complexity of the task…. The danger is that Australians will think too soon that they have changed enough.
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> … we have relevance to international discussions affecting our future, but not the capacity to secure objectives through the exercise of national power. As a middle power we must rely on persuading other countries….

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[292] Peter McLaughlin, *Internationalising Australia's Economy,* Public Policy Forum on the Garnaut and AMC Reports, Australian Graduate School of Management, 1991, p231

[293] Peter Walsh, *Confessions of a Failed Finance Minister*, Random House, 1995, p. 215

[294] Actually the stagnation lasted a little more than a decade but to admit that would have been to admit that the early Whitlam and early Hawke Governments made more errors than perhaps it was politic for Ross Garnaut to advertise.

> A … theme … upon which all others depend is that we must accelerate progress in domestic economic reform, to build a flexible, internationally-oriented economy…. Of greatest direct relevance are the needs to press ahead … towards the abolition of all official restrictions in trade imposed at Australia's borders….

Garnaut emphasised that Governments that acceded to the clamour of vested interests were in fact weak. Strong Governments concentrated upon their responsibilities as umpires. Delivering a Shann Memorial Lecture at the time when the 'excesses of the eighties' were becoming apparent, he asserted:

> Enforcement costs of market-conforming behaviour are extremely high unless the operators of the state, and powerful participants in the markets, operate within an ideology that values market-conforming behaviour as a virtue. ...the declining moral legacy of the West has created problems for the continuation of capitalist development. The weakening ideological support for self-restraint in maintaining the rules of the marketplace has required more explicit, extensive and expensive enforcement of the rules by a strong state.

The Garnaut Report called for free trade for every industry but textiles, clothing and footwear, to be achieved by gradual reduction to the end of the century.[295] Bert Kelly had warned me always to talk of 'freer trade', never 'free trade', lest I ask too much of my limited stock of credibility. Attitudes had by now been changed radically and Garnaut asserted 'We are making bad mistakes if we stretch them out beyond that time'.[296]

The tripartite Australian Manufacturing Council (AMC) commissioned Pappas Carter Evans and Koop to write an appropriately corporatist winner-picking alternative to Garnaut. Even it, however, accepted the tariff reductions that had already been announced and reduction to levels comparable with those of most Western nations.

Garnaut influenced the March 1991 Economic Statement and contributed to Government rhetoric and public expectations. Despite the recession then prevailing, the Government reaffirmed its intention to open up the Australian economy. Other than strengthening rather than weakening anti-dumping measures, it endorsed the Garnaut approach rejecting that of the AMC. Except for cars and TCF, tariffs were to be reduced to 5% by 1996. Cars and TCF were not perceived as being different; it was simply that with those industries there was too far to go in the time. TCF tariffs were reduced to 25% by 2000 with the remaining quotas abolished from 1993 and motor car tariffs reduced to 15% by 2000.

Hawke defended his decision with an impeccable statement of economic principle:

> the most powerful spur to greater competitiveness is further tariff reduction. Tariffs have been one of the abiding features of the Australian economy. Since Federation … the supposed virtues of this protection became deeply imbedded in the psyche of the nation. But what in fact was the result? – Inefficient industries that could not compete overseas; and higher prices for consumers and higher costs

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[295] Snape, Gropp and Luttrell, *Australian Trade Policy 1965-1997*, Allen & Unwin, 1998, p. 30

[296] Ross Garnaut, *Internationalising Australia's Economy,* Public Policy Forum on the Garnaut and AMC Reports, Australian Graduate School of Management, 1991, p. 223

> for our efficient primary producers. Worse still, tariffs are a regressive burden – that is the poorest Australians are hurt more than the richest. … We have rejected the views of the so-called 'new protectionists' because they are simply proposing, in effect, the same discredited policies that had isolated our national economy from the rest of the world and caused great damage we are all working to repair.

This statement had the complete absence of mercantilist demands for reciprocity – there was instead acceptance that the absence of Australian protection benefits primarily Australians.

It was the high point of dry influence.

Dumping

Australia's disposition to allege dumping had been the subject of repeated overseas complaint. In Australia, the benefits that the allegedly-dumped low-priced goods conferred on consumers rarely entered the debate, let alone the equation.

Dumping is relatively rigorously defined as selling in a foreign country for lower prices than in the domestic market – as Australia did with milk products. But in 1983 the Hawke Government defined dumping as selling at any price that did not recover all of the relevant costs plus a reasonable profit margin – as for instance Australian wheat might today be sold in a drought year and much else. (The US had long employed this definition.)[297] A reason advanced for the change was to give Australian agriculture easier access to anti-dumping measures.

Ironically, Australian farmers were soon hoist by their own petard. In December 1985, a $55 per tonne anti-dumping duty was imposed on imports of DAP (Di Ammonium Phosphate) fertiliser from the USA even though the selling price in Australia, after adjustments for freight etc., was no lower than in the USA.[298] The incident showed how easily discrimination may have unintended consequences. It was also ludicrous. The Phosphate Co-operative Company, a farmer-owned cooperative, had brought the anti-dumping action. Appreciating the consequences of $55 tax on farmers' fertilisers in his election year, the WA Premier begged the Prime Minister to exempt Western Australian farmers from it. The Federal Government exempted all farmers 'on a temporary basis'.

An assurance of rigorous anti-dumping action was, however, a means by which the Hawke Government sought to achieve acceptance of reduced protection. Democratic politics requires compromise and, although Dries have often criticised what they thought was weakness, they have not contended otherwise.

The Uruguay Round

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[297] If an overseas seller is to profit from predatory pricing, it must drive out local competitors and then have no international competition that will prevent it making sufficient super-profits to recoup the losses already sustained – an unlikely circumstance.

[298] Snape, Gropp and Luttrell, *Australian Trade Policy 1965-1997*, Allen & Unwin, 1998, Chapter 13

It had been hoped that a GATT ministerial meeting held in November 1982 would lead to new round of negotiations that would include the liberalisation of agricultural trade. The meeting was not successful, but Doug Anthony had given an unprecedented Australian commitment to the multilateral process. The change of heart apparently had been brought about by fear of rapidly growing protectionism worldwide, the tension between maintaining import barriers while seeking export markets, and the growing domestic constituency for liberalisation.[299]

The Hawke Government thus inherited the processes that became the Uruguay Round of trade negotiations. While mercantilist sympathies stirred within many a Labor Party breast, the new Government appreciated better than the old that a negotiating stance by which nations undertook to cease taxing their own consumers and weakening their own economies only if other nations did likewise was inherently silly.

We have seen what Hawke's second Government did to reduce Australian trade barriers. Shortly before it took that decisive action it had been instrumental in the formation of the 'Cairns Group' of nations exporting agricultural produce, not just to carry the good word to all who would listen, but also to bring concerted pressure for free trade in agricultural products within the Uruguay Round negotiations. The Fraser Government had had the Bureau of Agricultural Economics (BAE) calculate the cost to Europeans of the European Union's Common Agricultural Policy. A pamphlet in five languages had been circulated within Europe. During the negotiations, the OECD took up this initiative, calculating that consumer and taxpayer support for farmers cost Europeans US$104 billion in 1989 alone. The BAE later also calculated the cost to Americans of US agricultural protection. While the calculations probably had only small beneficial effect within the target nations, the logic that underlay them encouraged Australians to take seriously the IAC calculations of the cost of our own protection policies.

At the Uruguay Round negotiations in Punta del Este in September 1986, Australia announced that it was 'willing to negotiate a broad package of measures to reduce overall levels of assistance to industry' – a radical departure from its stand in previous rounds. Our 'Closer Economic Relations' with New Zealand were used to explain how trade in services might be made freer.[300]

By the time that the protracted negotiations were complete, Hawke was no longer Prime Minister. The Australian Bureau of Agriculture and Resource Economics could estimate, however, that the half-successful Round would allow Australia to sell annually an additional $350 million worth of beef, $250 million of wheat, $75 million of course grains, $100 million of dairy products and $500 million of coal – important gains for Australian producers and European, American and Japanese consumers that were not fully realised because of the backsliding of nations other than Australia. For the first time at such negotiations Australia had not lost sight of its real interest.

Meanwhile Australia was a major participant in forming the 'Asia Pacific Economic

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[299] Snape, Gropp and Luttrell, *Australian Trade Policy 1965-1997*, Allen & Unwin, 1998, p. 369

[300] ibid, pp. 371-2

Co-operation' (APEC) forum. The idea went back to the 1960s and was revived in 1989 as a means by which to encourage a successful completion to the Uruguay Round. It developed a significant life of its own, exploring co-operation in areas such as trade facilitation and liberalisation, investment and technology transfer. From 1989 it was specifically established that it would not be a trade bloc raising barriers against non-members or discriminating in favour of members.

The professed aims were excellent but some cynicism concerning the politicians who maintained the policies that needed changing seemed warranted. Hawke, like every Prime Minister before and since, had wanted to look an international big shot and he needed to be seen to be doing something about the economy. In 1994, the Bogor Declaration committed APEC's developed-nation members to free trade and investment by 2010 and developing-nation members to the same by 2020. Subsequent meetings have concentrated on implementing that decision but the attitude of its biggest member, the USA, has been sufficiently ambiguous to justify the initial cynicism.[301] APEC lost momentum by the end of the 1990s when Asia-only free-trade arrangements that excluded Australia were pursued.

Inflation

Labor had been critical of Fraser's alleged 'fight inflation before unemployment' policy. In office, it was initially reluctant to screw up interest rates sufficiently to curb inflation. Further, early monetary policy ran into the same difficulty that Thatcher had experienced in the United Kingdom. Money being anything from cowry shells to electronic balances, M1, M3 etc, which pick up only some of these, are imprecise measures of liquidity. With financial deregulation and the ability of trading banks to pay interest on overnight deposits, the most used measure, M3, which includes those deposits, increased without any increase in underlying liquidity. No doubt conscious of how the Thatcher Government had come to run a tighter monetary policy than intended, Keating announced that the Reserve Bank would no longer target M3 but instead a check list of several 'indicators'. This policy was interpreted, as it turned out unfairly, as a decision to be soft on inflation bringing the A$ into further disfavour. Monetarism had not been rejected but, since the money supply was elusive, other indicators were employed when deciding when to tighten or loosen it by raising or lowering interest rates.

The budget management and productivity-enhancing reforms that would eventually permit inflation to be brought under control while unemployment was reduced were in their nature slow to produce their benefits and in any case were implemented over seven years. Until 'the recession we had to have' Australian inflation was, therefore, well above the OECD average.

In the 1990-91 recession, inflation fell sharply to 3.4% and to 1.2% in 1991-92. Apart from a short spike in 1994-95 it has been under control since. Much reduced inflation has been a worldwide phenomenon associated with improved employment in most countries. We have at least learned that, except over the shortest term, inflation cannot be traded off against employment.

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[301] Snape, Gropp and Luttrell, *Australian Trade Policy 1965-1997*, Allen & Unwin, 1998, pp. 468-9

The Hawke Government's control of inflation surprised it as much as anybody but its deliberate actions to deregulate, reduce protection and produce budget surpluses had greatly contributed to that eminently desirable end.

Hawke's Governments tended to dryness in other areas, privatising, deregulating and pursuing equity until, like all Governments, they lost the will. In the next chapter we consider these and their principal failure, the lack of any determination to include industrial relations in their reform agenda.

Chapter 11

The Hawke Years II

The whole aim of practical politics is to keep the populace alarmed (and hence clamorous to be led to safety) by menacing it with an endless series of hobgoblins all of them imaginary'.

H.L. Mencken, 1923

Under Hawke's Prime Ministership, reforms affected most aspects of Government. None, however, gave the Parliamentary Dries who had sat behind Fraser more satisfaction than airline deregulation.

Transport

In 1986, the Government commissioned the *Independent Review of Economic Regulation of Domestic Aviation*, the May Report. It showed that TAA was 5% less efficient than Ansett when neither company had much incentive to achieve economic efficiency. It might reasonably be concluded that the 5% was due to public ownership and its attendant employment rules alone. May put five alternatives to the Government, which opted for the most radical: termination of the Two Airlines Policy from 1990. The domestic market was, however, to remain protected from competition by international carriers. This, with the sale of TAA, was essentially the policy that 6 years before Ansett's two spokesmen, Alex Carmichael and Graham McMahon, had told us Ansett would accept.

Uncompetitive airlines, protected by the Two-Airline Agreement, had bred a militant, monopolistic pilots' union, representing pilots who flew only about half the hours that American pilots flew. In 1989 they struck for even better terms of employment. Hawke, to most people's surprise, used the Air Force and foreign pilots and aircraft to break the strike. His action raised as many questions about his association with the chairman of Ansett Airlines, Sir Peter Abeles, as about industrial relations.

Airline deregulation and Hawke's handling of this strike were both hugely symbolic. Before the 1983 election, a nominally liberal Government had been afraid to repeal the Two-Airline Agreement; but before the 1987 election, a nominally socialist Government was promising just that and the Liberals too were committed to repeal. It was a victory for patient argument and a demonstration that fundamental ideas can prevail over interests.

Peter Forsyth, who had worked so hard for deregulation, among other things helping to draft the terms of reference for the Holcroft Inquiry, had turned his attention from the need to deregulate to the way deregulation can be made to work. The Australian Institute for Public Policy published his paper on the problems that might arise as the Government deregulated. Notably, he warned of a potential market imperfection that was to emerge – the ability of start-up airlines to find terminal space at key airports.[302]

[302] Peter Forsyth, *Free to Fly,* AIPP, 1987

Fter Compass Airlines began operations Australians temporarily enjoyed much less expensive air travel and air travel increased, but at the end of 1991 Compass collapsed.

I had been in London the morning after Laker Airlines had collapsed, and was not, therefore, as surprised as some by the public support for Compass. The roads outside the Palace of Westminster back to Trafalgar Square had been packed with demonstrators, some in Laker Airways uniforms. The demonstrators were both expressing support for the airline and demanding that the Government bale it out.

That morning I sat in the gallery of the Commons during Prime Minister's Question Time. A Labour MP, who apparently had not quite understood the mood of the crowd outside, asked Thatcher what she thought of the market now. As I recall the scene, Opposition MPs were jeering and behaving as badly as Members of our House of Representatives on a bad day. Mrs T. walked to the dispatch box looking as pained as only she could look. Her reply ran something like this:

'The Honourable Member will be aware...'

Row and calls to order.

'The Honourable Member will be aware that I am something of a fan of Sir Freddy',

More noise.

'I, nonetheless, can assure him that I do not intend to put a penny of his money at risk'.

Laughter that somehow managed to convey relief from the Tory benches.

Goodness knows what they expected.

The Prime Minister's response was the right one, and the Australian Government's response to the Compass collapse was equally correct. The rightness of the Australian decision was not altered by the earlier decision to waive payment of monies due by Ansett to the Government during the pilot's dispute. With other peoples' money, two wrongs never make a right.

Australian coastal shipping was almost totally protected from international competition and the unions dominated the wharves. The IAC reported in 1988, recommending competition for both the ships and the waterfront. The relative inefficiency of Australian sea-freight was recognised but instead of allowing foreign flagged ships to carry freight between Australian ports and eliminating the barriers that prevented stevedores from operating outside the industrial awards, the Government instead chose yet another round of corporatist tripartite negotiations. The maritime unions had more clout than the pilots.

Agriculture

Agriculture Minister, John Kerin, became responsible for the monopoly marketing boards, grain-handling authorities, sugar mills and milk factories run by highly-organised rural lobbies. Before the 1980s, most farmers had never experienced anything else and, getting most of their information from the boards and lobbies, sincerely believed that the monopolies prevented them from being ripped off. Kerin ultimately got into political trouble with the wool industry but he was a courageous reformer who tried to teach farmers that their exceptional on-farm efficiency was

being dissipated by the inefficient handling, transport and marketing systems to which they were so wedded.

Service and manufacturing industries that sold principally on the domestic market, were able to use anti-competitive regulations to generate economic rents paid by Australian consumers. Agriculture, on the other hand, selling mainly in international markets, could not control its selling prices, and therefore the excess costs generated by the monopolies were passed to their profits and incomes. The principal beneficiaries of rural socialism were not farmers but the staff of the various 'authorities' and the farmer politicians who enjoyed much status and a little power. Kerin, an agricultural economist, was snowed less easily by self-serving nonsense than were farmers.

Among its dry provisions, the May 1988 economic statement ended sugar quotas and announced that the local content scheme for tobacco leaf would end in 1993.

Less arcane than the arrangements for milk, wheat will serve to illustrate the delights of 'orderly marketing'. Wheatgrowers were compelled to sell to the Australian Wheat Board (AWB) alone. The States had ceded control over the right to sell and price wheat on the domestic market to the AWB in return for legislation that compelled the AWB to use only 'Authorised Receivers', which were the monopoly bulk-handling authorities (BHAs) operating under State legislation. In most states, wheatgrowers were also compelled to use another monopoly, the State railways.

Despite at least 20 previous royal commissions, inquiries and reports, Kerin commissioned yet another under Jim McColl into grain storage, handling and transport. McColl estimated that the potential savings from more competition in handling and transport alone were at least $8 per tonne while the Australian Bureau of Agriculture and Resource Economics (ABARE) estimated savings of $9. Denis Hussey writing for AIPP had predicted savings of $10 per tonne. These estimates were at a time when the average farm-gate price for wheat was only about $100 per tonne.

Most growers believed that if the AWB were denied its monopoly, wheat prices might return to depressed 1930s levels. Wheat prices in inflation-adjusted terms were, however, already at 1930's levels. Dries did not advocate doing away with either the AWB or the BHAs, but they asked that both face competition that would give individual growers choice.

Despite vehement opposition, Kerin deregulated the domestic wheat market, starting with the 1989 harvest. The AWB retained its monopoly over exports. As is the way of agriculture, the monopoly was clothed in a euphemism, the 'single desk'.

Kerin had at times been a brave voice in the Labor Party. He should, however, have been able to rely on the support of those champions of free enterprise, the Federal Opposition. Not so: the National Party supported retention of the AWB monopoly.

Dairy products received high levels of protection via even more complex regulations. Also against fierce opposition, Kerin began winding down the two-price arrangement by which the farmers 'milked' housewives whenever the latter purchased 'whole

milk'. The Victorian dairy farmers were deregulated, following 'arbitration' of domestic milk prices, during a Victorian State election. The arbitration was conducted by Justice Robinson of the Commonwealth Arbitration Commission who was advised by Mike Taylor, who later was to head the Commonwealth Department of Agriculture, and David Trebeck. His ruling replaced 1200 individual prices and margins fixed every six months with a single farm-gate price with everything else between the farmer and consumer 'free'. That provided the opportunity and the incentive to ship milk interstate eventually undermining regulation elsewhere.

Kerin deregulated dried fruits and sugar.

The Uruguay Round of tariff negotiations, which required that price support mechanisms be consistent with GATT rules, helped him to accelerate deregulation.

During Kerin's ministry but on its own initiative, the National Farmers' Federation, declaring that 'Governments should be less amenable to the pressure of sectional interests who will benefit from regulation', mounted an effective campaign for deregulation. It calculated that trade barriers were costing the average farm $7000 annually. NFF President, Ian McLachlan declared to farmers in front of Parliament House:

> Unlike our competitors in the US and Europe, we don't want to be subsidised to produce and subsidised to export.
>
> We are not after short-term handouts from this or any other Government.
>
> We haven't got them now [a false claim in the cases of dairying and tobacco] and we don't want them in the future.

From a Canberra-based industry lobby whose own hierarchy derived power and status from the regulated systems and whose own constituency had yet to be convinced of the wisdom of rural deregulation, these statements displayed a remarkable appreciation of the national interest and reality. They contrasted with, for instance, a declaration, by Doug Anthony, by then retired from Parliament, that 'we are competing against subsidised farmers in Europe; we must have the same'.

The wool industry was, however, a sadder tale. Wool was sold by auction but the Wool Corporation, since the early 1970s, purchased lots that did not meet its 'reserve price'. This finally, after a longer interval than free-market growers had predicted, became unsustainable because a huge stock of unsold wool had piled up. The saga has administrative, economic and moral lessons but fortunately Australians seldom display quite such pigheadedness, arrogance and disregard for reality as did this industry's ruling class. Among its tragic features was the political injury it inflicted upon a better than average minister.

About twenty years before the debacle I had attended a growers' meeting at which Mr Bill (later Sir William) Gunn explained how he was going to make wool 'too expensive for woolgrowers to buy'. Although some present drew his attention to the possibility that wool could be made too expensive for woolgrowers to sell, he would have none of it. Unlike with wheat and sugar, people with a collectivist turn of mind did not then dominate the wool industry. In 1965, a considerable majority of growers

had rejected acquisition in a referendum at which growers with as few as 300 sheep voted equally with those whose incomes depended on wool. Nevertheless, in 1969 the Australian Wool Board (that preceded the Corporation) induced the Government to allow a non-statutory company with powers to engage in 'supply management'. This was defined as the passing-in of lots that did not achieve a satisfactory price on the day, the valuations having been assessed by recent market levels. There was to be no stockpiling of wool.

At this point the industry experienced a price slump and a drought. A sub-committee of the Wool Board proposed a single marketing authority to set reserve prices. Understandably the Minister for Primary Industry was a little nervous and he referred the proposal to Sir John Crawford for appraisal. Crawford accepted it in principle but observed '...the Government whose financial support is necessary, does need to be assured that the authority is behaving rationally and conservatively'. Sir John seemed to have had few illusions about the risks or the people who might manage the scheme!

In 1970, despite by then two referendums in which a majority of growers opposed such a scheme, the conservative Government decided to set up the Australian Wool Commission with powers to operate a conservative reserve price with a flexible reserve. But a year later the industry's good and great were calling for authority to control marketing of the clip including powers of acquisition. In March 1972 the new Whitlam Government received a submission asking for powers, among others, 'to acquire and determine prices, including export prices, for all wool'. That proved to be too socialist for Mr Whitlam, whose Government was 'unable to commit itself to the principle of acquisition without supporting detail'. In June 1974, 264 pages of supporting detail landed on the Government's desks.

These recommended that the Corporation (AWC) manage the supply of virtually the entire Australian clip and determine the rate and method by which the wool would be sold – in effect, acquisition. This proposal was also too socialist for Whitlam. Instead, starting in 1974-75, he gave the industry leaders power to set a reserve price for the duration of a season, backed by a 5% levy of gross proceeds. The price could be adjusted only upwards, a policy one might get away with while inflation was at Whitlamesque levels, but not when money was more stable.

By incurring debt for which those still in the industry would ultimately be responsible, woolgrowers were compelled to purchase their own wool and store it for resale. Each could have kept his wool in his own shed and borrowed against it, had he wished. As the Corporation took the wool off the market, it reduced supply and thereby raised the average price. As it put the stored wool back on the market it depressed the price. The procedure could not much increase growers' average prices[303] but it ironed out some fluctuations. Growers' incomes were, however, influenced more by the seasons than by short-run changes in price.

Since the reserve price was set in Australian dollars and most buyers were foreign, the reserve price could do little to stabilise buyers' prices, which were influenced by the

[303] If price elasticities were greater at times of low prices than at times of high prices and the Corporation could at the time pick high and low points, then some gain in average prices would have been effected.

exchange rate. Refusal to sell wool to willing buyers must have given some market share to synthetics manufacturers and to wool growers in other countries.

Because Australia produced most of the world's fine wool it may have been that reduced supply would have achieved a greater than proportional price rise – that is, monopolists' rents. However, because no attempt was made to control supply, it was unlikely that the particular reserve price scheme could in the long run have benefited Australian growers. Nevertheless, until the debacle, the cost to growers, according to ABARE, had been only a few hundred millions of dollars over many years. The industry could have lived with that, although there was no good reason why it should. The danger that the reserve price would be set badly wrong was always present.

Bob Richardson who was the senior AWC economist at the time of the collapse of the reserve price wrote in 2001:

> With financial deregulation and the fluctuation of the Australian dollar, the risk that the price would be set too high was greatly heightened. In 1984 an internal review of the scheme by AWC economists led to the conclusion that the floor must be set more conservatively … Rejection of the advice set the AWC economists on a collision course with the AWC Board. Subsequently over the two years to 1987 and 1988, the floor was raised 70% from 508 to 870 cents. The probability of collapse converged on 1 [ie. certainty]; only its timing remained uncertain.
>
> This 70% increase in the floor price created a supply response… Production rose 19%.
>
> On the demand side … this forced wool yarn prices to levels at which there were strong incentives for substitution of blends for pure wool.[304]

In 1987, Minister Kerin set the scene for final disaster by withdrawing his own authority from the setting of the reserve. The reserve was about 30% above trend prices and Minister Kerin should have over-ruled the Corporation. He had the authority but that would have been politically difficult and he gambled. Over the final two years of trying to maintain the reserve, the Wool Corporation spent $2 billion of growers' funds held in the 'Market Support Fund' and a further $3 billion borrowed with a Government guarantee. Richardson estimated that the up front cost to taxpayers of the collapse of the reserve price scheme 'probably approached A$1 billion'. When, far too late and after stating that the reserve price would be maintained, Kerin eventually had to say 'no more', industry politicians pretended to wool growers that the wool reserve could have been maintained if only the Federal Government had not intervened. They were cowardly and dishonest; the debacle was primarily of the Commission's doing, and done over the opposition of its own economists.

Governments of both political colours had resisted the industry lobby but they were weak. The wool reserve had all the principal features of wetness – wishful thinking, benefits for a minuscule group at the expense of the majority, failure to face facts even when they were well known, and diseconomy. It was, however, not in this case

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[304] Bob Richadson, *The Australian Journal of Agricultural and Resource Economics,* 45:1 p 102

overturned by a prolonged campaign. Rather it collapsed. The episode will, no doubt, long feature in Economics-One. It should also feature in Politics-One, but probably won't.

Education

Employment, Education and Training Minister, John Dawkins abolished CAEs teaching practical skills and turned them into universities. He is still reviled in academic circles for the damage he did universities by compromising their independence and forcing them to pursue production – an arbitrary centrally-planned increase in student intake – rather than excellence. It is difficult to separate the legitimate complaint from self-interested promotion by academics.

His reforms, if that is what they were, followed a green paper that sought autonomy for the institutions but proposed more effective Government control over enrolments and 'education profiles'. The conflict between academic freedom and taxpayer accountability had intruded into most of the study but it had not been faced. Stories of university profligacy were rife and the Minister, who on the whole had a healthy respect for taxpayers' money, was reluctant to leave unaccountable institutions to choose between, say, applied women's studies, ancient history and mechanical engineering. The hybrid, a taxpayer-funded institution that is autonomous, is impossible to achieve.

The Green Paper had called for 42% more students by 2001, more Aborigines, and of course more women. (As women already outnumbered men at universities the concern had become 'under-representation' in certain faculties.) However, the numbers of dollars that passed through a university's bank account, and the numbers of students, academics, women and members of racial groups that pass through its portals, were not measures of knowledge. The lowering of entrance and pass standards to increase numbers may have reduced national productivity.

Faced with a choice between accountability and academic freedom, the minister chose more accountability. Most Dries viewed some Mickey Mouse courses with disdain and nearly all were irritated by the economic nonsense employed by academics in search of more money. They nevertheless tended to keep out of the debate. So long as universities were funded primarily by the taxpayer and ministers took their responsibilities seriously, meaningful institutional autonomy would remain illusory.

Viewed with hindsight, Dawkin's university reforms were not necessarily economically rational. Such things as economics has to say about the trade-off between quality and volume were not sufficiently instructive in the case.

Labor under Dawkins' influence did however take a very important step toward equity in tertiary education funding and consumer sovereignty that, if taken far enough, would discipline universities while granting them genuine independence. He proposed the 'administration charge' in 1986. He also permitted universities to enrol full-fee-paying foreign students. Education became a significant export industry

when, from 1986 to 1988, the numbers of these students increased from 4,500 to 22,000.[305]

Following the Wran Report, the Government introduced the HEC Scheme. It required only those students who later earned substantial incomes to repay only 20% of the cost of their education. Without a blush for the traditions of scholarship, university students and academics, assaulted us with balderdash wrapped in jargon. A horticulturist told us a graduate tax would adversely affect the balance of payments – why do experts in the physical sciences feel free to rewrite the social sciences without reading them? An associate professor of education asserted, without offering evidence, that a graduate tax would be hard to administer – he would have been wise to consult his colleagues in economics and politics. Guild presidents told us that asking the wealthiest 37% of society to pay for a modest portion of its higher education was inequitable. Philosophers, sociologists, economists and political scientists have destroyed forests writing about 'equity', but had failed to educate student politicians in the concept. Philosophers, chemists and pathologists told us that education was a 'public good' but deigned not to ask the economists what the term meant. Students did what they do well – held rowdy and illiberal protests.

The Opposition did not support the graduate tax on the ground that it was an inferior policy to its own. It was, but the Howard Governments did not implement the superior policy. The principal fault with the graduate tax is that it is minuscule: a 20% fee deferred for, say, 10 years, interest free, has a present value equivalent to about an 8% fee.

The Wran Committee proposals were not very courageous. But by correctly describing the nature of education they exposed the economic rents that attach to free tertiary education and went a little way to righting a considerable inequity.

Media

A dry position on regulation and taxpayer subsidy favouring some suppliers of entertainment, information and culture is little different in principle from the dry position on the production and exchange of any other valued commodity. Just as Dries trust consumers to choose from among internationally traded goods, they trust them to select from the world's ideas and cultural traits. Far from being afraid of foreign cultures and ideas, they welcome their availability in the expectation that diversity and choice will enrich Australian life. Not to trust Australians to choose wisely, even if American or some other programs became more widely available than Australian, is elitist, xenophobic and the ultimate cultural cringe.

Foreign ownership presents no special problems but, since restricting the range of ideas is likely to cause even greater loss of wellbeing than restricting the range of physical goods, media concentration does. The pro-competitive provisions of the Trade Practices Act ought to be applied as much to media as to anything else. Because unbiased reporting of domestic events and policy is a necessary condition of a liberal democracy, the fact that television and radio stations are beholden to Australian Governments that grant licences restricting competition ought to concern the public.

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[305] Snape, Gropp and Luttrell, *Australian Trade Policy* 1965-1997, Allen & Unwin, 1998, p. 296

Obviously, none of the restrictions on foreign ownership of media outlets, the rationing of the airwaves to favour existing owners, the public ownership of the ABC and SBS, and the large core of publicly-funded spin doctors who work for ministers satisfies dry criteria. Like people who have preferred access to the markets for goods, those with preferred access to the markets for ideas are concentrated vested interests and, in their case, with an exceptional capacity to defend their privileges. Most politicians believe that the media has the power to determine any close poll. Just by being there, they threaten Governments and Oppositions and none will take the action in this area that would be the equivalent of reducing tariffs or deregulating the dairy industry.

Having regulated the industry beyond the point necessary to maintain property rights in the electronic spectrum, Governments cannot now avoid choosing between policies that favour one or other of the media moguls over others. They are inevitably accused of favouring those most likely to favour them. Keating's gloat in 1987 to executives of the Fairfax press 'I've hurt you more than you hurt me'[306] illustrates the situation.

When the Hawke Government changed the media ownership rules to allow any one television owner to reach 60% of the viewing audience but restricted ownership by newspaper owners, this resulted in greater media concentration than before and was said to favour Kerry Packer.[307] There was food for thought in a newspaper picture of Prime Minister Hawke with his arms around both Kerry Packer and Alan Bond and even more in their endorsement of him. A case can be made that it would have been dereliction of the tycoons' duty to their shareholders not to support the Government that maintained the monopoly value of TV licences, and in the courts of princes, where success depends upon the favour of the presumptuous, flattery is coin. When the flattery can be delivered in colour into every home, democratic politicians must be particularly tempted to purchase it, particularly when they pay with taxpayers' or advertisers' dollars. When political support may be bought with a licence or other benefit the cost of which is hidden from those who pay, temptation must be nearly irresistible.

The Hawke Government's media policy was very soggy. It must be admitted, however, that Dries gave media deregulation less attention than its importance warranted. The Internet and other technology, however, are now doing for choice what political argument has not.

Privatisation

Almost immediately after it was elected, the Hawke Government faced demands for funds from Qantas and TAA. Walsh told the Cabinet that, if they could not pay market rates for their capital, then the Government should 'flog' them. Qantas and TAA got their 'capital injection' that time, but this may have been the first consideration of privatisation by the Hawke Government.[308]

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[306] Edna Carew, *Keating – A Biography*, Allen & Unwin, 1998, p 179
[307] ibid, p 182
[308] Peter Walsh, *Confessions of a Failed Finance Minister*, Random House, 1995, p 108

Following a visit to Australian in 1985 by Madsen Pirie of the London based Adam Smith Institute that had championed privatisation in Britain, Hawke and Co. had gained considerable political mileage from campaigning against privatisation. Nevertheless, by 1987, the Cabinet favoured floating 49% of both Qantas and TAA. Hawke said Labor's spending priorities had to be welfare, education and health rather than capital injections for Government-owned businesses. Caucus would not listen then[309] and Qantas was not privatised until 1992.

The Belconnen Shopping Mall was sold in 1985-86. In 1986 a large portion of the grounds of the Tokyo embassy was sold (despite Department of Foreign Affairs attempts to stop it) in a deal that netted Australia a new chancery and $660 million change. The mortgages held by the Defence Services Housing Loans Corporation were sold to private lenders.

In 1990, with the State Bank of Victoria and the left-wing Kirner Government in equally serious trouble, Keating organised the Commonwealth Bank to take-over the State Bank. He financed the deal by floating 30% of the latter. Opponents of privatisation had only the rescue of a small Victorian bank to alleviate their discomfort – Kirner was beyond rescue.

The IAC estimated that competitive reform of telecommunications would save at least 15% of users' costs, or $1,050 million per year. Partial deregulation of the sector began in 1988 with the adoption of the Davidson Committee's 1982 recommendation to introduce competition for 'add-on' activities but Labor baulked at privatising Telecom. The case most often heard against its privatisation was that a public monopoly was needed to cross–subsidise uneconomic rural services. Monopoly also permitted overmanning and expensive work practices. Most people in rural towns were not subsidised, but farmers and graziers were. Farmers and Telecom's employees could have been subsidised much more efficiently from the budget but then the charity would have been visible. Farmers had terrified one side of politics and the union the other. Nevertheless, in 1990 the Government ended Telecom's monopoly of the provision of handsets and in 1991 a duopoly for wired telephone was established, to last until 1997 when open competition would be allowed. In 1992 Optus won the tender to become the second carrier.

Environment

Environmental policy was not among the Hawke Governments' successes. Driven by political motives and subservient to the organised environmental movement, their worst decisions imposed high economic costs and destroyed jobs with little benefit for the physical environment.

The Fraser Government had banned exploration and mining in Stage I of Kakadu National Park within which there is much that is unusual and extraordinarily beautiful. In 1983, the Hawke Government proclaimed Stage II and extended the bans. It did this although Stage II had almost none of the environmental significance of Stage I. In the run-down to the 1987 election Hawke extended Kakadu by proclaiming Stage III, an area aptly described by Gareth Evans as 'clapped-out buffalo country'.

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[309] Paul Kelly, *The End of Certainty*, Allen & Unwin, 1992, p 391

In that election, elements of the environmental lobby played clever politics. Philip Toyne of the Australian Conservation Foundation and Jonathan West of the Wilderness Society campaigned in eleven seats on the slogan 'Vote for the Forests'. They issued a how-to-vote card calling upon electors to vote ALP in a different order from the ALP card. It was, therefore, possible to establish that 12.5% of the ALP's preferred vote in the eleven electorates had followed the Green ticket. Toyne and West claimed to have delivered Labor seven seats.[310] It would not have mattered to the dry cause that they had enhanced their bargaining coin had they pursued the sort of environmental policies advocated in, for instance, AIPP's *Reconciling Economics and the Environment,* which was then still four years from publication. Those Green protagonists, however, seemed to Dries to be more intent on socialising the economy than protecting the environment. They might, for instance, have addressed the absence of adequate property rights in water that was causing so much waste of a scarce resource, turned their attention to salinity or establishing sustainable rules for the harvesting of natural timber. Instead they pressed the Government to impose bans on economic activity that had left-wing appeal but less environmental benefit than other policies they might have concentrated on.

They convinced Graham Richardson, who was reputed to be a skilled numbers man, that the Green vote could again deliver Government in 1990. From the time that Richardson was made Environment Minister in 1987, environmental administration was directed to middle class voters far removed from the consequences of decisions.

Wood pulping uses the forest waste from saw logging. The effect of it upon logging is disputed but, as the demand for saw logs is tied to housing and there are as yet few close substitutes for timber, the demand for saw logs must be relatively inelastic. The main effect of not processing the waste should be, therefore, to raise the price of timber rather than to reduce the number of trees cut. Greens, nevertheless, object particularly strongly to pulp mills. North Broken Hill and Noranda Canada had planned to build one at Wesley Vale in the depressed region of Northern Tasmania. Under pressure from conservationists and reports from the CSIRO and the Bureau of Rural Resources that cast doubt upon the safety of proposed waste disposal, the Government granted approval only if the project partners met environmental constraints that at least Noranda was not prepared to meet.[311] In that case, politics and science combined to frustrate the project.

That was not the case when the Government, in 1991, banned mining at the Coronation Hill gold and platinum mine in Kakadu Stage III. The mine had obtained the necessary environmental impact clearance and Hawke had written to BHP assuring the company that there would be no policy change. Richardson had even told the Green activists that in the circumstances the mine should go ahead. Hawke, intent on gaining Green preferences, nevertheless, overruled Richardson.[312] Putting his authority on the line in Cabinet, he insisted that the mine be banned, disgusting the dry ministers, Walsh, Button, Dawkins, Kerin, Evans, Cook and Collins. The Government thereby signalled to investors that the word of Australian Governments was not to be trusted and that they should do as they do in third world countries,

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[310] David Barnett, *John Howard*, Viking Press, 1997, p. 467
[311] Paul Kelly, *The End of Certainty*, Allen & Unwin, 1992, pp 529 - 531
[312] Graham Richardson, *Whatever it Takes,* Bantam Books, 1994, p 259

factor sovereign risk into their budgets.

The environmentalists behaved little better than the Government. It should have been important to them that the environmental-impact assessment procedures were not discredited. Instead green leaders needlessly gave those people who believe that Australia is paying too high a price for environmentalism a stick with which to beat impact assessments. It had to be asked to what drum they marched.

Richardson also contributed to forestry becoming a running sore. The decision to declare the South West of Tasmania a World Heritage area had already denied a large area of forest to the timber industry but at Richardson's request the Cabinet closed more timber mills elsewhere. Despite Labor's traditions, the jobs of low-paid timber workers, some in areas where unemployment was around 20%, were of little moment beside middle class urban votes. Peter Walsh recalls that Peter Cook, the Resources Minister:

> would reach an agreement with the State Governments (Queensland excepted), under which areas would be locked away from timber cutting, but others would be available. He would be undermined by Richardson seeking larger quarantined areas, buffer zones, offers of compensation and job creation schemes for the retrenched timber workers….
>
> While eroding the Government's tax base by closing down industry, Richardson was simultaneously adding to Government expenditure outside the budget process with bids for his compensation offers…. His portfolio had a higher proportion of completely discretionary expenditure than any other did.[313]

The Hawke Government's management of the greenhouse issue does not cover it in glory either. No Government can avoid making decisions based on information that is less than wholly reliable. Hawke's dilemma in 1989 was not exceptional in that regard.

There was then little doubt that atmospheric carbon dioxide levels had been considerably increased by human activity. Whether temperature had in fact risen in consequence was not certain, but the weight of particularly official opinion was that it had, albeit, slightly and mainly at night. Estimates of the magnitude and speed of global warming have been drastically reduced since then, but even in 1989 the perceived problem was at least decades away. There had been little debate where atmospheric science and economics overlapped. Rising temperatures would probably have beneficial effects in, say, Greenland and Russia and harmful effects in, say, the Southern Sahara but nobody had credibly estimated the balance.

Few doubted that coercive measures and/or targeted use of taxation and subsidy could reduce levels of greenhouse gas emission. But the heavy weight of opinion among economists, including the Government's own economic advisers, was then and still is that regulatory or tax-and-subsidy measures to reduce greenhouse emissions would also reduce economic growth.

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[313] Peter Walsh, *Confessions of a Failed Finance Minister*, Random House, 1995, p 207

The Government faced another not uncommon problem, free riding. If warming was a problem, then it was a global problem. China, India and the rest of the rapidly developing world, however, would be required to do nothing about it. Demands for greenhouse action came most strongly from Europe, which would gain some competitive advantage by reducing the growth potential of other developed nations. Nevertheless, beat up or looming crisis, an Australian Government that was less cynically disingenuous than some in other nations had to contend with international demands that it do something. Threats of international sanctions, if it did not, were half-credible.

Faced with uncertainty regarding an untoward event, rational managers first adopt such 'no regrets' strategies as are available. Beyond those, the costs and benefits of alternative strategies are assessed and weighted by their likelihood and the decision-maker's preference for risk. Problematic costs are postponed until they become necessary. Without the benefit of sophisticated techniques we do this sort of thing every day. Since catastrophic weather changes are predicted only when our babies are approaching retirement, to allocate a decade or so to learning what we should do while expanding the envelope of the 'no regrets' strategies was rational.

In what it actually did, this approximated the Government's approach – as it was in other countries. The greatest damage was done by hyperbole. Graham Richardson regaled the electorate with stories of polar ice caps melting, cyclones and droughts. Not all environmental concerns are imaginary but a number have proved so and laymen have difficulty deciding where to direct their concerns. The Hawke Governments that turned to the market for solutions to several other problems did not do so in the case of the environmental problems, nevertheless, the most certain injury that it did in this area was to the trust that sustains the social environment.

Industrial Relations

The regulated and uncompetitive labour market was inconsistent with other policies the Government adopted but, because of Labor's financial, personal and traditional relationship with the unions, labour relations reform was difficult. Five months after Hawke came to office a national wage case ruling that was equivalent to a fully indexed increase ended Fraser's wage pause. At a disadvantage in its dealings with the ACTU, the Government began weakly.

Despite the Accord, Hawke faced a maritime strike. When an Australian vessel, the *Allunga,* faced with costs it could not manage, pulled out of trade with the US West Coast, the maritime unions refused to handle American container shipping. The Columbus Line gained an injunction relying on the additions to Section 45 of the Trade Practices Act, but the unions extended their bans to all foreign ships. The Government allowed the union to win and there was no follow up.

Hawke prevailed on the building employers to withdraw deregistration procedures against the Builders Labourers Federation that would have allowed other unions to 'poach' its members.[314]

[314] David Barnett, *John Howard*, Viking Press, 1997, pp 269, 270

The Hancock Report in May 1985,[315] made several uncontentious recommendations to improve the conduct of the industrial relations system but, with one paragraph, it contributed, I assume unwittingly, to the demand for substantial reform. The report rejected penalties on unions or unionists for failing to comply with Industrial Relations Commission orders on the ground that organised labour was too powerful to be forced to comply. The report described unions as 'centres of power' replacing the powerlessness of individual workers with collective strength. With remarkable candour Hancock wrote, 'It is a mistaken view of a pluralist society that every subject is equally dominated by the might of the state and its arms of enforcement'.

Although he rejected equality of all before the law, one of the most fundamental tenets of a civilised, peaceful society, he did not exaggerate. Since the Clarry O'Shea case in 1969, the Arbitration Commission and the State industrial tribunals had been so terrified of being revealed as paper tigers that they had bent over backwards to appease defiant unions, thereby reinforcing the belief in union omnipotence. Hancock had diligently reported the public's wish for sanctions for breaches of industrial laws but nevertheless recommended against employing them. Not long after Hancock's matter-of-fact observation, its truth was underlined when the ACTU forced the Government to back down on its budget speech undertaking to discount wages for the currency depreciation. Proponents of IR reform delighted in quoting Hancock in every convenient context.

Unacceptable to liberal democrats as his recommendation to tolerate competing centres of power beyond the law may have been, his analysis of the situation was persuasive: the trade unions could not easily be brought within the authority of the courts. As things were, to do so might ultimately require the army. Blood, almost certainly that of relatively innocent parties, would be shed and martyrs created. I quoted Hancock with relish but I had reached the same conclusion in my *Blue Book* – I thought unions were effectively above the law.

It was at this point that Hawke took the unexpected action to break the pilots strike. I do not think a conservative Government would have got away with it so lightly. By seeking resolution outside the arbitration system Hawke contributed something to making the once unthinkable thinkable. There were, nevertheless, no radical breaks-through in Australian industrial relations, such as in the United Kingdom and New Zealand. The background against which such public policy change as was achieved was, however, coloured by several other industrial disputes that demonstrated that unions were not quite as far above the law as some of us believed. These included the Wide Combs dispute, The Live Sheep Dispute, Mudginberri, Dollar Sweets, Robe River, SPC, South-East Queensland Electricity Board and APPM.

Some of New Zealand's best shearers, many of them Maoris, extended their season by shearing in Australian wool sheds. By re-introducing the wide (92mm) comb to Australia, banned in 1927 by the employers, they sped up shearing by some 20-30%, increasing shearers' incomes and reducing shearing costs. By resorting to industrial action and spasmodic violence with unpleasant racial undertones, the Australian Workers Union tried and failed to stop use of the 92mm comb. This, even though

[315] Chaired by Professor Keith Hancock

some AWU members used them in the American West during the Australian off season.

When in 1978 the Australasian Meat Industry Employees Union had tried to prevent the export of live sheep to the Middle East, farmers' organisations had successfully organised hundreds of farmers to load them. A remark made by Ian McLachlan at that time passed into folklore: 'Industrial relations used to be regarded as complex until we simplified them somewhat.'

The Mudginberi abattoir in the Northern Territory processed buffalo meat for export. The owner, Jay Pendarvis, reached an agreement with his staff to abandon the productivity-limiting tally system and registered the agreement with the Arbitration Commission. The Australasian Meat Industry Employees Union, nevertheless, picketed the works and Commonwealth meat inspectors refused to cross the picket, denying the abattoir its capacity to export. In due course the ACTU backed the AMIEU.[316] The Government had a considerable problem. It sought to retain the centralised system but here was the ACTU, its Accord partner, defying the Arbitration Commission and the Federal Court. What is more, there were 450 tonnes of meat in cold store rapidly losing value. The National Farmers' Federation backed Pendarvis and took the dispute to the Federal Court. This found the AMIEU in breach of the Trade Practices Act, imposing substantial damages for the breach and then, when these were not paid, further fines for contempt. Eventually the cost to the AMIEU was $1.5 million of members' hard earned funds with nothing to show for it. The tally system was eventually abolished.

During 1984, Dollar Sweets, a firm of confectioners, took common law action against union picketers who were hindering those employees wishing to work and wilfully damaging its property. The firm's lawyers, Peter Costello and Michael Kroger, gained an interlocutory injunction against the union from the Victorian Supreme Court and eventually $175,000 damages for their client. This episode was important because it demonstrated that the common law through the ordinary courts could be efficacious against some types of union behaviour and also because it brought the young Peter Costello, now Federal Treasurer and Deputy Liberal Party Leader, to the notice of Dries everywhere.

Charles Copeman, the Chairman of Peko-Wallsend initiated a widely-publicised crackdown on restrictive work practices at the Robe River Iron Australia (RRIA) mine in WA. In May 1990, Human Rights and Equal Opportunities Chief Commissioner, Sir Ronald Wilson, finding in a case of wrongful dismissal of an employee who was offside with the unions, had had these things to say:

> The role of the unions in [RRIA's] operations is of critical importance in the resolution of the complaint. At all material times, it was the policy [of RRIA] to maintain production at all costs, even the costs of surrendering to the unions in all but name its managerial responsibility for the workplace. In practice the unions were supreme.
>
> It is submitted...that I should declare...that [RRIA] has engaged in conduct rendered unlawful by the Act.... But in July 1986, shortly after the dismissal of the

[316] David Barnett, *John Howard*, Viking Press, 1997, p 333

> complainant, the respondent successfully challenged the supremacy of the unions and assumed a proper responsibility for the workplace. For this reason, I do not believe it is appropriate to make such a declaration.

Following the ending of many restrictive work practices, RRIA's productivity gains exceeded 200%.

During 1990 the SPC cannery in Victoria's Goulburn Valley was faced with closure. Its loss, in an area with high unemployment, would have been serious, not only for employees but also the fruit growers. SPC's management went to its employees with a request for labour cost savings of $2.5 million to save the company. Management and SPC shop stewards came up with a plan that included the removal of 17_% leave loadings, and the loss of rostered days off and extra payment for weekend work. Within hours of the deal struck with their shop stewards being announced, the unions declared it illegal. The Federal Minister for Industrial Relations, Senator Peter Cook, quickly called a meeting with the Company and restructured the deal in a more politically and industrially acceptable way and the Industrial Relations Commission put its seal upon it.

During a protracted dispute, the South East Queensland Electricity Board successfully negotiated productivity-enhancing contracts with employees and sub-contractors, despite the opposition of the union that traditionally covered the linesmen and maintenance workers involved.

The management of Australian Pulp and Paper Manufactures, which like Robe River Iron was then a subsidiary of North Broken Hill, declared that several practices that were not part of relevant awards would cease. The award itself, employees' 25% over-award payments, existing superannuation arrangements and a 35-hour week were not threatened. The dispute was about union power. The company executives were prepared to talk with their employees in the presence of union officials but not with union officials instead of employees. The company got all it sought in productivity improvement but conceded to the union the right to throw in the towel on behalf of the employees. Both sides claimed victory.

In contrast, by the second half of the 1990s the climate had changed somewhat. The West Australian Government was not successful when it tried to let stevedoring for Stateships to the cheapest tenderer, which employed non-union labour. It gave in at the behest of business interests, allowing the Maritime Union of Australia to maintain the long-standing closed shop.

If these cases showed nothing else they taught that the centralised fixing of employment conditions by distant tribunals was often at the expense of the employees at the worksites.

Despite these successes and others during the Hawke years, only a modest dent was made in the capacity of union monopolies to impose work conditions that caused unemployment and denied otherwise achievable productivity gains. Policy-makers had only one real option, that of removing, by small degrees if necessary, the circumstances that caused unions to be, as Hancock had written, 'centres of power'

that could not be ‘equally dominated by the might of the state and its arms of enforcement’.

There were calls for no-holds-barred confrontation – a re-run of the shearers’ strike toward the end of the nineteenth century – but these were not made by Dries for two reasons. First, victory would have been far from assured, and, second, most of us felt that violence was too likely.

Most Dries thought that union privileges should be removed by steps too small to inspire a general strike or alienate public opinion. This had been the successful approach of the second Thatcher Government. Workers could be given the right to opt out of unions and awards. Access to the protection of the common law and trade practices law could be made easier. Shop or company unions could be encouraged and industry unions that cover all direct competitors could be discouraged by removing the ‘conveniently belong’ clause from the Act. People with an interest in economic efficiency could be appointed to the Industrial Relations Commission. General laws protecting workers’ rights against employers, unions and awards, might replace industrial law. Debate might be conducted in proper human rights terms that would deny the moral high ground to unions that opposed freedom of association.

Most importantly, pressure should be placed on labour market participants by liberating product and other factor markets. A sentence from an address by Senator Chaney to the HR Nicholls Society indicated that the Opposition, and probably key members of the Government as well, understood the inevitable consequences for trade union power of economic deregulation. Chaney said: ‘From a public policy stance, deregulation of the product market is probably one of the best incentives to good [labour force] management’.

By the late 1980s the central plank of the Liberal’s industrial relations policy had become the right of individual workers and their bosses to opt out by agreement from industrial awards. Opting out would on many but not all work-sites have needed courage on the part of the individual worker but it would have been difficult for the unions to turn it into a major confrontation. To the extent that the Government could enforce the law, individual workers were protected from dismissal by the principles outlined by Justice Wilson at Robe River. Since it was anticipated that many workers at many work-sites would happily reach agreements that would offer them more pay for higher productivity, it was anticipated that union membership and the power of which Hancock had warned would decline.

The Government moved initially in the opposite direction. It augmented the influence of the ACTU and the biggest unions within it with the apparent intention of preserving and strengthening the industrial relations structure while enhancing the influence of its more responsible elements. It offered cooperation among the powerful under a corporatist vision. Mussolini had, after all, got his trains to run on time.

In1988, Ralph Willis, the Industrial Relations Minister, introduced amendments to the law to combine small unions into super unions, subsidising their amalgamations with $2 million. This extended denial of free association.

There were probably some short-term benefits from appeasement of the unions, but sharing power with them in corporatist deals had a poor record. When the Wilson and Callaghan Governments in the UK had tried it, their social contract ended in the infamous 'winter of discontent' of 1978. In contrast, by 1988, Margaret Thatcher was enjoying a measure of union cooperation that, had it been granted to Callaghan, might have denied her office. She had obviously gained many unionists' votes.

The Hawke years did, however, introduce 'enterprise bargaining' if more in name than substance. In October 1990, the Industrial Relations Commission announced guidelines that stipulated that the agreements must:

- not reduce ordinary time earnings,
- not reduce paid annual leave,
- not increase working hours,
- not reduce long service leave,
- base wage increases upon productivity increases,
- have a term during which no further increases (except their own national wage case decisions) were negotiated, and
- be negotiated by a single negotiating unit at each enterprise.

The stipulations excluded most means by which employees could improve their terms of employment and each agreement had to be approved by the Commission.[317]

It was not much but it was something: some uneconomic work practices could now be exchanged for increased pay. What is more, even though Labor's legislation did not really reflect the concept, it gave credibility to the term.

The 1980s Excesses

The 1980s saw loose monetary policy and a worldwide recovery from the 1970s stagflation in many countries. In Australia the world-wide expansion coincided with deregulation and together the circumstances combined to encourage a borrowing spree by corporations that financed hostile take-overs, sometimes conducted with less than due regard to the rights of creditors and minority shareholders. The umpires joined the play. State Governments, stupidly in the cases of Victoria and South Australia, and more reprehensibly in the case of Western Australia, became major speculators.

Toward the end of the decade, the excesses led inexorably to several spectacular business collapses. Until the first defaults, Australian borrowers had been considered internationally as reasonably good risks, but then other reckless Australian entrepreneurs were quickly caught out and so were some State Governments.

Australia experienced a cost of deregulation that is hard to avoid. People not experienced in free market disciplines tend not to develop the technical, prudential and moral attributes upon which markets depend. Most of the public- and private-sector paper entrepreneurs were gamblers and a few, having first engaged in giddy wishful thinking, then engaged in skullduggery. Some have since graced Australian gaols or places beyond the reach of extradition. Shareholders and trade creditors were cheated at an exceptional rate and, although the problem fixed itself, Dries were temporarily on the defensive. Irrationally, because we had experienced such events

[317] David Barnett, *John Howard*, Viking Press, 1997, p 587

before, financial deregulation was blamed for the perceived collapse in corporate morality rather than credited with uncovering sins the auditors had missed. Where the internal institutions of society are deficient, well-intentioned decrees, that is external institutions, are seldom enough.

However, I write with hindsight. Although by the late 1980s most prominent Dries had formally recognised the role that institutions imbedded in the culture have in sustaining markets, none that I am aware of anticipated that their weakness would, for instance, allow Westpac, ANZ and most of the minor banks to get themselves into such serious trouble. These lent imprudently to gamblers. Not for the first time, Dries had failed to appreciate all that their theory ought to have taught them.

Although they were not at first taken seriously, I think Dries made a better fist of describing what was happening in the public sector.

An episode that they did criticise as it evolved became a modest part of what became known as WA Inc. It will serve as an example of behaviours and attitudes that were then quite prevalent. In October 1983 the joint venturers in the Argyle Diamond Project made a $50 million compensation payment to the WA Government in return for release from an obligation to build a townsite. At a time when 5% of the Argyle Diamond project could have been purchased for $23 million invested in Ashton Diamonds, the Government purchased a 5% stake from Bond Corporation for $42 million. It then formed the WA Diamond Trust that purchased the stake for $45 million. Next, the Trust issued 65 million one-dollar units. 60 million of these were sold to public subscribers and 5 million to the WA Development Corporation.

$23 million worth of assets was turned into $65 million by taxpayer subsidy (the trust escaped Federal tax) and a State Government guarantee of an 8% return for 7 years, thus turning a speculative venture into one that was gilt-edged because State taxpayers had been saddled with the risk.

In newspaper columns and in Parliament, Dries pointed to the moral equivalence of non-existent tax cuts and Blue Sky NL's non-prospective mineral leases and much else. What is more, they drew responses. WA Labor Minister David Parker, NSW Liberal Minister Terry Metherell and Federal Labor Minister Graham Richardson each were to make excuses that in effect claimed that ethics are situational and that politicians cannot be expected to always be truthful and keep trust.

If the Parker/Metherell/Richardson defence is allowed, then fault lies with the political system itself. Company directors and executives may be prosecuted for misleading shareholders and misapplying shareholders' funds but the Cabinet of the WA Government when it applied $408 million of tax-payers' money to propping up Rothwells could be punished only by loss of office. The extent of WA Inc. was revealed by a subsequent Royal Commission, but the most serious breaches of the Government's trusteeship of its citizens' interests were not, so far as was established, illegal. From the dry perspective, the most important lesson was how ineffective legal processes were in bringing Governments to book. The institutions that best prevented political corruption were political but slow.

Rothwells' chairman, Lawrie Connell, would in time tell the WA Inc. Royal Commission that he gave over $1,000,000 to the Australian Labor Party. He stated: 'The Premier was fairly blunt.... [My] business was healthy and that, in no small part, was the result of the Government having a favourable attitude towards me and, if that was to continue, I'd be expected to contribute'. There was, however, never any likelihood of a prosecution that might have led such a statement in evidence.

The dry position was not that justice or revenge should be sought after the events but that Governments should, by avoiding commerce, get themselves out of the way of temptation and concentrate on maintaining the rules.

Ravel's definition, in Chapter I, of political corruption was a broad one: 'Being corrupt means somehow misapplying political or administrative power, whether directly or indirectly, outside its proper sphere, for one's own financial or material advantage or in order to distribute the gains among one's friends, colleagues or supporters'. Businessmen who must deal with administrations that breach their responsibilities are not always innocent, but they do face an unclear moral situation. When they receive benefits from a Government, whether or not they pay large sums of money to a political party or its Ministers' 'slush funds', they can argue that to refuse the Government's favours while others accept them would be to place themselves at a commercial disadvantage. If, at the time of WA Inc, many businessmen saw their favours as little different from the tariffs, tax breaks and licenses from which business had always benefited, they were approximately correct. Indeed the principal relevant difference was only that the beneficiaries were more narrowly defined. They stopped asking, 'Is it right?' to ask instead only, 'Is it legal?'

Victoria and South Australia produced less morally dubious parallels of WA Inc that were, nevertheless, serious for their budgets and economically costly. The Victorian Labor Government got itself into serious trouble with the State Bank and its subsidiary Tricontinental. The South Australian Labor Government of the time got that State's finances into trouble via its equity in the State Bank which lent unwisely to friends of the Government. In Queensland, the National Party Government was found by the Fitzgerald Inquiry to have been in bed with a bunch of preferred entrepreneurs known colloquially as 'The White Shoe Brigade'. The costs to Queensland's taxpayers were, however, comparatively minor.

Sir William Cole, who during his public-sector career had been Secretary to the Departments of Finance and Defence but who was then working with the Australian Institute for Public Policy, used the opportunity afforded by a Giblin Lecture to explain why the public sector needs disciplines that would impose too much inefficiency to be tolerated in the private sector. He argued that when buying and selling in competitive markets, businesses are accountable to both their customers and their shareholders. This form of accountability makes them efficient in the economic sense, however the market, which depends on voluntary transactions within stable rules, cannot discipline Governments that enforce involuntary transactions and can change rules. Politicians' lusts for power, money and votes must be disciplined in other ways. Sir William observed, 'efficiency, important though it is, cannot be an overriding objective in a public sector operating within our system of Government'. That is, of course the underlying reason why Governments should be kept out of commerce.

The most remarkable feature of the State Government Inc. episodes was how little they have served to warn future Governments. These almost totally failed to appreciate that WA Inc etc were but extreme manifestations of their own tendency to give commercial favours in return for political favours.

The Recession We Had To Have

On Tuesday 20 October 1987 the Australian stock market fell 24.3%. By any account that was a spectacular fall but the All Ordinaries index was, nevertheless, back only to where it had been in February.

Our Government (and most others) wisely did very little, while the Reserve Bank monitored liquidity levels. Fearing recession, the Bank increased the money supply by more than the amount that, with hindsight, it deemed wise and by 1988, property prices were soaring. It then again tightened money and so began what Keating was to describe as 'the recession we had to have'. Central bankers manage money and interest better than politicians but their art remains an imprecise one. In the event, the real Australian economy was probably much the better for the recession as Keating, perhaps unwisely, told Parliament it would be.[318] And this time recent budget discipline, unlike the situation in 1982, permitted an expansionary response.

As the economy headed into recession, the current account was not as benign as the budget. During the first half of 1990 the world economy, which had been expanding satisfactorily for the previous eight years, came off the boil and commodity prices fell by 6.3%, further exacerbating Australia's precarious balance of payments situation. By 1989, Australia's foreign liabilities were being compared with those of Mexico and Brazil.

Centralised awards prevented adequate labour productivity gains and, as usual, the Arbitration Commission had awarded wage settlements that could not be afforded. Unemployment, which had fallen from 10.2% in 1982-83, was still 6.7% of the workforce in mid 1990 and rising again. The economy lacked the means to share the fall in living standards that was now the inevitable consequence of adverse terms of trade. A high price was about to be paid for the Government's Faustian pact with the ACTU. Australia had appeared at the bottom of a table showing the growth of labour productivity in OECD nations[319] and wage settlements were greater than the regulated labour market's capacity to raise productivity. The 1990 OECD survey of Australia was particularly critical of the productivity of public utilities where labour productivity was less than half that of the OECD average and capital productivity was little better. It said that 'The pattern of multi-enterprise awards continues to impede change and limit adaptability, and it reduces the scope for productivity improvement'.

In some respects the Government deserved better: it had, after all, done some of the most important things to produce a strong economy but these had not yet had time to raise productivity. In another regard it deserved the problem it faced: it had done almost nothing to reform labour markets.

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[318] David Barnett, *John Howard*, Viking Press, 1997, p 482
[319] ibid, p 560

Australian public opinion had, however, been changed radically. The Business Council staged a so-called Debt Summit. At it, Ivan Deveson of Nissan, drawing on a submission by the automotive manufacturers to the Industry Commission[320], called for labour market and Government utility reform to precede tariff reduction lest businesses that ought to survive go broke. He argued that the Government could do more to accelerate cost-reducing reforms over which producers had no influence. The BCA called for voluntary enterprise bargaining. Deveson was able to show that the ongoing and pre-announced tariff cuts were squeezing car industry profits. No longer able to pass excess costs on to customers, managements would risk stoppages to negotiate better work practices and employees became interested in changing work habits when they knew that their job security was affected. The Federal Government was already addressing the reform of some public utilities but the important electricity supplies, railways, ports, schools and hospitals were in the hands of the States.

Cynics might argue that Deveson's attempt to tie tariff reform to labour market reform was an attempt to delay it forever. They would be unfair. He was making a fair point, namely, that firms such as Nissan could get by with a lot less protection if they were not forced to accept a productivity-destroying industrial system and costs imposed by regulation elsewhere in the economy. His speech might fairly be seen as a call for what was later known as 'National Competition Policy' and to have a spokesman from the industry that was responsible for about 1/5 of all measured consumer subsidy, accept that tariff reduction must occur was progress indeed.

The BCA, like the ACTU when the Accord was new, had found a formula that the CEOs of companies that did not wish to face competition could live with. For a short while the BCA became a force for economic reform.

During 1991, John Prescott the CEO of BHP[321], echoing the car industry submission to the Industry Commission, said, 'I believe that there is little fundamental opposition from the manufacturing sector to the reduction or removal of tariffs. However, there is a genuine concern that tariff reform has occurred in isolation from other much needed micro-economic reform…. If we are going to deregulate the market for manufactured or traded goods, then we must also deregulate the market for inputs into the manufacturing process. That means more labour market deregulation and more liberalisation of markets for other supplies to manufacturing. In particular we must deregulate the service inputs into manufacturing, including transport and power.' This was a remarkable statement from that source.

Following Labor's win over the Peacock-led Coalition in March 1990, Peter Walsh retired to the backbench. From there he delivered attacked the Accord by saying that there should be no wage increases and no tax cuts.[322] The ABC introduced his comments as 'more venom' but his comment was by then but conventional economic wisdom that would have strengthened the Government's hand for much-needed action.

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[320] Federal Chamber of Automotive Industry, Study on Automotive Competitiveness, Submission to the Industry Commission, 1990.
[321] Australia's largest company with a long record of resisting tariff reduction and labour market reform.
[322] David Barnett, *John Howard*, Viking Press, 1997, p 572

Business confidence, profits and investment declined sharply. Unemployment rose to 11% by the end of 1992. Gross Domestic Product shrank by nearly 1% during 1990-91, and the budgeted surplus of $8.1 billion came in at only $1.9 billion. The Hawke Government had the responsible option of easing fiscal policy by increasing expenditure but much of it was, as is usually the case with Keynesian stimuli, of low quality, yielding sub-average economic benefits.

Keating was correct: it was a recession we had to have, but he would have been more honest if he had traced its major causes back to the Accord. With spreading price stability around the world and better monetary management at home, the 1990 recession drove inflation from the economy. It did not return when business again prospered and unemployment again trended downward.

At this time Keating mounted his first (unsuccessful) challenge to Hawke and for a short while John Kerin replaced him as Treasurer.

Hawke, Greiner and Federalism

In the 1890s, Australians had led the world in developing a democracy that spread power widely, but a political-intellectual clerisy had since captured its institutions. Confident of their own superior vision for the nation, better to wield their influence, these had encouraged the executives to dominate the Parliaments and the Commonwealth the States. The public had expressed its disapproval of both tendencies – of the latter one by consistently voting down referendums that overtly transferred power to Canberra. However, few of the transfers of power had been put to the people. Section 96 of the Constitution allows the Commonwealth to grant financial assistance to any State on such terms and conditions as it thinks fit. Those terms and conditions and control of the major tax bases caused, as much as allowed, Canberra to drag the States in directions that it wished to travel. Further, the Commonwealth tested its powers to limits that the High Court upheld beyond the point that most people wanted. Especially in the outlying states, the public was unhappy with the situation, but from the days when they believed in socialism the Labor politicians – many of whom were still Utopians at heart – had inherited a preference for centralism. As late as 1993 Hawke had claimed that 'Federalism is an anachronism'.[323]

State/Federal fiscal imbalance and unnecessary lack of clarity concerning the division of powers were barriers to quality Government and therefore featured on dry agendas. I had complained in my 'Blue Book' about too much quarrelling over authority and money, confusing overlap, buck-passing and too little direct electoral influence over expenditures. Peter Walsh, in *Confessions of a Failed Finance Minister*, complained of the mindless obstruction of all populist State politicians and the disloyalty of Western Australian Labor politicians to reforms initiated by the Hawke Government.[324] Liberals in the Federal Parliament during the Fraser years had been no less bitter about the behaviour of State Liberal politicians and the bitterness was

[323] SBS, *Dateline*, 11 June, 1993

[324] Peter Walsh, *Confessions of a Failed Finance Minister*, Random House, 1995, p 87

reciprocated. State politicians complained of self-serving intrusion into areas of State responsibility and parsimonious redistribution of tax monies.

Whitlam had tried to address the problem by imposing a form of centralism. Fraser had tried to address it by allowing the States to tax at their preferred rates an income tax base administered by the Commonwealth only to be frustrated by the spurious charge that he was proposing 'double taxation'. Despite this history, Bob Hawke and NSW Premier, Nick Greiner cooperated to address fiscal imbalance. Walsh describes their initiative as a fuzzy one that skirted around the fundamental issue of State income tax, adding that 'Whatever chance it had of achieving something worthwhile disappeared when Keating sabotaged it in the second half of 1991'.[325] So far as it had gone, the initiative was indeed fuzzy. However, since the issue had plagued the nation since shortly after Federation and each arm of Government at both political and administrative levels distrusted the other, some initial fuzziness was no doubt an aid to even continuing the 'peace talks'.

Keating won leadership of the Labor Party from Hawke by espousing Whitlamite centralism that repudiated the Hawke-Greiner initiative to restore fiscal balance to the federal system – a significant dry loss. Hawke and Greiner may have failed for reasons other than Keating's intervention but, by straddling party and State/Commonwealth interests and prejudices, they had given themselves the prospect of avoiding pitfalls of the past. If Keating understood the importance to the nation of what was being attempted, his sabotage was self-serving political bastardry justified in his own mind, no doubt, by his enmity for Hawke.

The Score

Having published *Mandate to Govern* in February 1987 the AIPP published a checklist of policies adopted or least under the serious consideration of the major parties. By June with an election campaign under way it read:

> Since *Mandate* was published in February, both major political parties have adopted some of the policies it recommends, or near enough to make little difference. AIPP is not trying to claim all the credit; others, inside and outside Parliament, are pressing for similar policies and economic necessity reduces the Government's room to manoeuvre. The list is necessarily incomplete as new policies are being announced daily. It is also often hard to tell what is formed policy, what is intention, and what has merely being seriously considered.

Recommendation	**ALP**	**Lib**
ABC Sponsorship	✓	✓
Abolish Department of Housing and Construction		✓
Cut spending on luxuries like sport, recreation, arts		✓
Cut State Grants and borrowing	✓	✓
End Commonwealth Employment Program	✓	✓
End Two Airline Policy	✓	✓
Issue more TV licenses	✓	✓
Means test family allowance	✓	✓

[325] Peter Walsh, *Confessions of a Failed Finance Minister*, Random House, 1995, p 237

Modest work for dole scheme		✓
Raise age for unemployment benefit and tighten administration	✓	✓
Repudiate Dibb Report's isolationism	✓	✓
Scrutinise public sector for savings	✓	✓
Sell airports or air terminals	✓	✓
Sell Australian Airlines	✓	✓
Sell Medibank Private		✓
Sell Navy dockyard	✓	
Sell Qantas	49per cent	
Skip pension indexation if necessary	?	
Tertiary fees	✓	✓
Wind up Medicare		✓

The staff at AIPP, nevertheless, did not realise how much the reforms they had fought for and were already in place would enhance freedom and productivity in the longer run. The wide-eyed wonder of many Dries, not least myself, at the extent of the success of our own policies must be one of the more amusing aspects of this saga.

More than seven years and a change of Government later, the Two Airline Policy was gone. Deregulation of the financial markets was a huge 'win' for economic rationalism granted by a Labor Government. Even though motor car and textile protection would yet do great injury, trade barriers were coming down steadily. Dairy industry protection had been reduced and sugar, eggs and dried fruit were being deregulated somewhat. Labor had privatised some assets and had made privatisation bi-partisan and, therefore, respectable. Even in the labour market some progress was made and senior echelons of the union movement accepted in public what they had long understood in private, namely the close relationship between employment, productivity and wages.

Fiscal management had been drier than in the wildest hopes of Fraser's backbench. The Commonwealth budget deficit had been turned to a surplus of sufficient size to offset State and Local Government borrowings. There had been a modest shift toward needs-based welfare with the introduction of means tests and reduced benefits for young people. Fees, of a sort, have been introduced for tertiary education.

Unlike voters, money market operators, immigrants, emigrants and investors are not rationally ignorant of Government policies. With tariff reduction, the easing of foreign investment guidelines, relatively liberal immigration policies and the floating currency, the Australian economy and Australian society more generally had been much opened up to the rest of the globe.

It seemed at the beginning of the 1990s as if political party allegiance had become irrelevant. It was not to prove so with political leadership. On 19 December 1991 Keating, who had been Hawke's ally and often the principal architect of reform, replaced him as Prime Minister. Although Dries at a distance from Labor politics held high hopes, Keating, the Prime Minister, would not fulfil the promise of Keating, the Treasurer.

Chapter 12
From Fraserism to Fightback

Ill est bon de tuer de temps en temps un amiral pour encourager les autres.
Voltaire

The Opposition Reforms Itself

The record of Parliamentary Oppositions is to encourage demands on the economy that they would not countenance were they in Government. Against that background, the Coalition in Opposition from 1983 to 1996 was exceptionally responsible.

After the experiences of stagflation in the 1970s, the rapid emergence of liberal/free-market/small-Government values had sent socialism into retreat everywhere. Australian Labor, which could no longer credibly pay it even lip service, moved into the ideological territory to which the Liberal/National Party had paid its lip service. Because the Coalition's philosophy was strictly 'Claytons' and nobody drew much inspiration from it, that had not been difficult. To govern, it had relied heavily on the advice of bureaucrats, and to win elections it had, more often than it should have done, used regulation and taxpayers' money to buy votes from interest groups. For decades the Coalition MPs had prided themselves on pragmatism, avoiding ideology primarily by not thinking about it. It is, however, virtually impossible to present a political party to the public as 'the party without beliefs'. So, while practising creeping collectivism, Coalition MPs had repeated an ill-comprehended litany of its dangers. During the stable fifties and sixties the approach had worked politically and had seemed initially to serve the economy reasonably well, particularly as overseas comparisons were then less easily made. However, by 1983 those days had long gone. When the dry movement evolved it was interpreted as being 'ideological'.

Perhaps I dismissed the philosophical commitment of some of my colleagues to the collectivist practices of the Fraser Government too readily. Be that as it may, within the party as it went into Opposition in 1983, there was a small band of committed Wets who advocated control over events and people's lives that Dries thought wrong. One of these, Ian Macphee, was to engage in bitter rearguard warfare, another, Chris Puplick, a less bitter campaign, and yet another, Peter Baume, was to resign the front bench on a matter of principle.

When the Hawke Governments became among the more effective reforming Governments in the world and in Australia's short history, they and these Wets presented the Coalition with a dilemma. It could have behaved as Oppositions mostly behave, but to cosy up to disgruntled vested interests would have meant calling for collective action to prevent free enterprise. A Liberal Party on the collectivist edge of Labor was barely credible, risking loss of identity. It would, however, be unfair to imply that the Coalition's dry credentials were merely pragmatic. Many of those who survived the 1983 election were ashamed of how their parties had governed and were determined now to do better.

These chastened Coalition MPs often led the debate for reform. The advantage they gave the Government went well beyond management of the Senate to management of

public perceptions and political risk. The Hawke Governments were thus able to escape the full measure of the short-run political odium that so often attends reform. With the Opposition backing reforms with only modest differences and often insisting that the Government go further, *status quo* vested interests had nowhere effective to turn. Without the support of a major party there was no point in their wooing the Democrats. Hawke, who in any case led an unusually high-quality team, was thus given a rare advantage by a responsible Opposition. Credit for the period of reform of exceptional quality must go in part to the Opposition.

From the moment of its defeat in 1983, the Coalition began adopting drier economic policy. To the extent that telephone conversations were anything to go by, I might have been excused for believing that several 'Wets' had all along been closet Dries. Nevertheless, when Prime Minister Hawke made some free trade noises while overseas, Peacock, who was then Liberal Party leader, chose to criticise; saying, among other things, that the policies of the previous Government in relation to the car industry and textiles, clothing and footwear industries had been about right. Bert Kelly and I issued a stinking and widely-reported press release. I received a hurt telegram from Peacock's office complaining that I was attacking my friends.[326]

Every sensible announcement of Hawke's May mini-budget ratcheted up my wrath with Fraser and Co. In the House, the Opposition interjected the usual banalities but its press comment was generally to the point and constructive. Friends, advisers and critics all reminded me that, 'One swallow did not a summer make' but for once, I look back with the thought that my optimism was nearer to the mark than their cynicism.

The Opposition was, of course, no candidate for beatification. During a 1988 by-election campaign for the Adelaide seat, for instance, it campaigned vigorously and effectively against timed local telephone calls. Ross Gittins and Max Walsh both interpreted the result as a set back for economic rationalism. Walsh wrote: 'The telephone issue symbolised the choice between a rational economic policy and political exploitation through fear… [The issue] was simply used by the Liberals … to frighten the ill informed.'[327] On that occasion the Coalition had indeed behaved badly, but it excited the criticism that it did only because senior columnists, such as Walsh and Gittins, had by then grown accustomed to it behaving better. Both before the mid-1980s and since the early 1990s such populist behaviour did not excite comment.

Changing the pilot

Fraser resigned the Liberal Party leadership without grace. He neither rang many of the defeated to offer commiseration nor addressed the first Opposition party meeting. The Liberal Party began 12 years of leadership instability that was to cause many people to look back to the Fraser years with some nostalgia. On the Friday after the election the survivors elected Peacock leader with 36 votes to 20 for Howard. Howard was re-elected deputy. Then a mere two and half years later, in September 1985, Peacock yielded to Howard. In May 1989, it was Howard to Peacock again; in April1990, Peacock yielded to Hewson; in May 1994, it was Hewson to Downer; and finally, in January 1995 ‚John Howard returned to the leadership.

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[326] My diary, Feb 8, 1984,

[327] Edna Carew, *Keating – A Biography*, Allen & Unwin, 1988, p 222

Concerning changing the leadership of the Labor Party Graham Richardson wrote:

> You must undermine the leader in the eyes of the Caucus to unseat him but not so much that the electoral damage is irreparable…
>
> With all sides snugly cloaked in the best interests of the party, everybody could get up to all sorts of bastardry with a clear conscience.[328]

It was like that in the Liberal Party also, except that the Liberals were less professional when it came to recognising irreparable damage and Richardson was wrong to say that everybody got up to bastardry. In either party, those were the methods of only a minority.

Four of the five principal parliamentary Dries had lost their seats. Only Carlton remained but Peacock appointed one of the four, Peter Shack, as his political adviser. Howard, however, chaired the crucial policy committee and it included two who were clearly dry, Carlton and the National, Stephen Lusher, and Chaney who, despite his reputation, is in my opinion at least as much dry as wet. The Coalition parties tried to avoid the wet/dry labels, but it proved impossible to gloss over the differences of opinion. These were soon to see the Liberal Party fighting over industrial relations, with Howard taking the dry corner.[329] The policy committee shortly recommended further reliance on indirect taxation and an education system based on vouchers to promote choice.[330]

Peacock's First Leadership

From the beginning of his leadership Peacock struggled to maintain his authority within the party and his stature without. In the Parliament and the media Howard tended to out-perform him on policy. That Howard should have done so in the Parliament was his form but that he should do better with the media probably reflected the media's view that it was in Hawke's interest to destabilise Peacock. Anyway, four years later when Howard led the Opposition, the favourable stories were all about Peacock.

David Barnett wrote that when Keating floated the dollar Howard had to talk Doug Anthony out of issuing a press release condemning the Government.[331] Anthony seemed still not to appreciate the injury done by political interference in exchange rate setting, not least his own. His retirement from the parliament shortly afterwards marked the passage of another of the 'young old men' – of the McEwenists.

Under Peacock the Coalition adopted a radically changed policy stance. Only six months into Opposition, it was espousing greater reliance on indirect taxation, gradual reduction in tariffs and partial dismantling of Medicare.[332] The Peacock and Howard camps were to claim credit for these policy positions, both I suspect with some justice. Although the most critical issue, industrial relations policy, remained

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[328] Graham Richardson, *Whatever it Takes*, Bantam Books, 1994, p 81
[329] David Barnett, *John Howard*, Viking Press, 1997, p 251
[330] ibid, p 251
[331] ibid, p 258
[332] David Barnett, *John Howard*, Viking Press, 1997, p 254

unresolved and although it is easier to say things in Opposition than to do them in Government, these were all tough decisions with political costs attached.

The Coalition went to the December 1984 election calling for 'family income splitting', that is, where husband and wife lived from one income, then their earnings would be taxed at the lower rate that would apply had they earned half each. The change was to be funded by expenditure cuts and broadening the indirect tax base.[333] To most Dries the justice of the measure seemed straightforward but some feminists opposed it vehemently. The Coalition was showing guts.

Labor won the election but Peacock had performed better than many expected. Following the poll, he appointed a drier shadow Cabinet, shifting Ian Macphee to Foreign Affairs and appointing Peter Shack, who had just been re-elected, Shadow Minister for Employment and Industrial Relations. Carlton was dropped. His demotion was, however, for the indiscretion of canvassing his own leadership prospects during the campaign rather than for policy differences.[334] It had not been Jim's smartest move but he was as influential on the backbench as in the Shadow Ministry. Howard was dropped from chairmanship of the policy committee but that too seemed not much to affect his influence.

David Barnett tells us that at the time of the Tax Summit:

> Howard regarded the broad-based consumption tax as an issue which placed the Opposition's credibility at stake. To backtrack was impossible and he would not. Moreover, he told colleagues, by supporting Keating he was bringing pressure on the Government, because of the Opposition coming to it from left-wing members of the Government and the caucus. 'I believe the line I have taken is the correct one' he said in *The Age* on 11 May. 'I'll make no apology for it. I will continue it. To the extent that Mr Keating supports policies I agree with, I'll agree with him.' Howard may have been putting pressure on the Government in caucus but in the public arena he was trying to make sound policy politically feasible. He nearly succeeded.

Howard continued his practice of giving credit where due and publicly establishing an economic agenda that could be repudiated only at political cost. It was the technique that the parliamentary Dries had employed and Howard employed it with the authority of a potential leader to greater effect than we had. His response to the 1985 budget caused him no disadvantage in the continuing comparisons with his leader.

Howard's First Leadership I

In September 1985, John Howard won the Liberal Party leadership and became Leader of the Opposition. At the time he was arguing for privatisation and deregulation. The 38th Liberal Council held in Adelaide eleven months later was seen as a watershed. Howard's address to the Council was reported in *The Bulletin* 'as all the Dries could ever have dreamed of' and he told the media that he would do what had to be done and if that meant only one term so be it.

In fact, the address was nothing of the sort. However, it was clearly progress and his

[333] ibid p 282
[334] ibid p 293

Thatcherite remark to the press was all that the Dries could have asked.

From the time of the accession of John Howard, the Coalition provided clearer leadership from the Opposition benches. It was not radical – that was to come later – but during the period from late 1985 to late 1987 the Coalition did manage to stay on the smaller-Government side of the Government. The Opposition was promising to take Australia back to the tax and spending levels of the early 1980s. The AIPP produced *The Forgotten Election Issues* describing the differences between Labor and Liberal policies on spending and taxing as trivial compared with the differences on trade and labour market reform.[335]

Both the Peacock and Howard Oppositions opposed Capital Gains Tax. The business community also opposed taxing capital gains but their cause had not been taken up by most Dries. Many of them opposed the taxation of capital *per se* and most were strongly opposed to policies that caused the combination of inflation and income taxes on nominal rather than real earnings to reduce the real value of cash assets. Nearly all, however, accepted the taxation of real capital gains, if only because, without such a tax, income tax avoidance was too easy.

The Liberal Party's platform for the 1974 election was said, probably truthfully, to have been cobbled together by Philip Lynch over Easter from the minutes and statements of various policy committees and his own good sense. It was a shopping list of uncosted promises, framed to convey concern for groups that could deliver votes while avoiding promises with impossibly high price tags. It had been well received. Platforms drafted more democratically by the policy committee and its sub-committees representing the major areas of potential voter discontent – rural, manufacturing, welfare, environment etc etc – had been even less mindful than Lynch of the long-term interests of the nation. When in 1985 David Trebeck, who had been the deputy director of the National Farmers' Federation and one of the nation's most sophisticated Dries, was hired by the Liberal Party to service the Policy Review Committee, serious reform was obviously intended. He was unlikely to allow himself to be associated with nonsense and getting rid of him once appointed would have been politically costly.

The Party produced *Policies for Business* written by Wolfgang Kasper and David Trebeck. It undertook to implement:

- comprehensive labour market reforms;
- a freeze of Government spending in real terms;
- in the context of further deregulation, abolition of the Foreign Investment Review Board and simplification of takeover regulations;
- a phased and orderly reduction of industry protection; and
- an assault on the high cost of the transport and communications industries, including coastal shipping and airlines.

A future Howard-led Government would one day retreat from the full extent if the labour market promises, increase Government expenditure in real terms, use its foreign investment powers to prevent the takeover of Woodside Petroleum by Shell and foreign investment in Qantas, and extend the protection of both the motor car and TCF industries. Dries of the time, however, expected better of him. *Policies for*

[335] The *Sydney Morning Herald*, 22 June 1987

Business had drawn directly on the continuing Crossroads meetings.[336] It was very widely distributed and its promises were backed by consistent free-market, classically-liberal arguments. In short, *Policies for Business,* was effective political leadership of a quality rarely attempted but which was consistent with a trend in the politics of its time.[337]

Nevertheless, by the end of 1986 the dry cause and with it the Howard Opposition was in disarray. A group of Wets had coalesced behind Ian Macphee who disagreed publicly with Howard on media and industrial relations policy. From a policy perspective I disapproved thoroughly of what Macphee was doing but I had to ask if he offended political proprieties that I had not offended when Fraser governed. Macphee had initially been in the Shadow Cabinet and therefore bound by the collective-responsibility principle, whereas I was not. However in April 1987, after he had tried to railroad the Coalition into collectivist industrial relations and media policies, Howard dropped him. Two years later Macphee lost Liberal endorsement for Goldstein to David Kemp.

Despite an increasingly dry Government, these were bad times for Dries. Discredited by open warfare in Coalition ranks and the gathering storm of the Joh-for-Canberra campaign, the dry cause was rapidly losing the high ground from which it could exert an influence. It was soon also to lose Howard. Howard had dominated Liberal policy formation and would outface and out-persist the Premier of Queensland. The public should have seen him as strong but, plagued by the 'little Johny' tag, an image of dominance eluded him.

At the height of the Joh-for-Canberra and Andrew-Peacock-for-Leader dramas (see below) in March 1987 the Coalition's policy was leaked to the media. It reflected Trebeck's drying influence. The Coalition promised to cut annual expenditure by $5 billion. To obtain the necessary savings and to further a dry agenda it would raise the female pensionable age to 65, cut bounties to manufacturing industry by 20%, freeze public service numbers, abolish the 17.5% leave loading, tighten pension eligibility, abolish the Foreign Investment Review Board, and privatise TAA and parts of Telecom, Aussat, the Commonwealth Bank and Qantas. It further promised to abolish the Schools Commission and the Australian Film Commission, consider abolishing the Commonwealth Tertiary Education Commission, end the First Home Owners Scheme and cut grants to the Australian Conservation Foundation and the Australian Council of Social Services.[338]

Dries were more than happy with the content of the policy, if a little sceptical about the large budget cuts. About these, the AIPP's *Mandate to Govern* released two weeks earlier had had this to say:

> In the current climate it may not be possible for the Government to achieve more than a 1% real reduction in Commonwealth outlays for each of the first three years. A better result is certainly desirable, but although the potential economic gains are great the policy adjustments necessary to achieve and manage the suggested figure will be difficult for an Australian administration. Among the

[336] Wolfgang Kasper personal communication.
[337] The Liberal Party, *Policies for Business,* 1986
[338] David Barnett, *John Howard*, Viking Press, 1997, p 437

> reasons are: none of the major parties is united on the need for spending cuts; the cries to Heaven from wounded interest groups will test any politician; and resistance can be expected from the public servants who would have to implement the policy. There is no public consensus yet on the need for big cuts in major spending programs such as pensions, education and health care (while there is one for labour market deregulation). Such a consensus will have to be built.[339]

The premature leaking of Coalition policy suited the dry cause in as much as it advanced the debates that might eventually build necessary consensus, but it was a serious blow to Howard (as it was probably intended to be) and to the Coalition's chances of defeating Labor. The vested interests were given too much time to mobilize.

Joh for Canberra

From the middle of the previous year the Dries had suffered a setback that they had not anticipated, although they ought to have done. Because success in democratic politics relies so heavily on credibility, every politician understands the cliché 'with friends like these, who needs enemies?' The successors to the Parliamentary Dries who had dented Fraser's credibility were now to suffer loss of credibility at the hands of a populist who climbed aboard the dry bandwagon promising impossibilities.

Sir Joh Bjelke-Petersen's record as Premier of Queensland had been interventionist, regulating both commercial and personal behaviour. In Queensland, as in other places where detailed Government control is practiced, it had resulted in cronyism. The unprincipled, self-indulgent nature of the Bjelke-Petersen Government was yet to be placed on the public record by the Fitzgerald Inquiry, but for many years Canberra-based politicians and bureaucrats had disliked the way, excellent budgetary management aside, that Queensland was being governed. Towards the end of 1986, Sir Joh mounted a campaign to make himself Prime Minister on a platform that promised two things especially. Both were populist nonsense. One was a 25% flat rate of tax. But since he said nothing about very substantial expenditure reduction, the 25% rate would have had to be applied to the lowest incomes and that was impossible. The other was suppression of the none-too-popular trade union movement. However, he did not tell us of the means by which this might be done liberally and democratically.

The Joh campaign would have been without legs had it not been for the instability of the Liberal Party leadership and despair about the absence of a Coalition leader in Canberra who looked like winning. Against that background it temporarily gathered considerable support, particularly in rural areas, some of it taken from Labor.[340] With even less policy substance, Bjelke-Petersen provided a foretaste of the appeal of Pauline Hanson's populism a decade later. Andrew Peacock at one point lavished praise on Bjelke-Petersen, and the Liberal Premier of Tasmania, Robin Grey, intimated that he favoured a Petersen and Peacock combination. Des Keegan and Katherine West, Canberra columnists who had supported the dry cause, threw their weight behind the campaign. John Stone, ex-Secretary to the Treasury, was reported

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[339] John Nurick editor, *Mandate to Govern,* AIPP and The Australian Chamber of Commerce, 1987, p 12

[340] *The Australian*, 20 February 1987

as saying that Joh was forcing the Hawke Government to face fiscal reality. Charles Copeman, the Chief Executive of Peko Walsend who had taken on the mining unions at Robe River, said the campaign was very helpful. John Leard, one of the few businessmen who had taken up the dry cause, albeit in an idiosyncratic way, took out full-page advertisements in support of it. The credible Newspoll recorded that 33% of the public believed that Bjelke Petersen was the best conservative leader while only 17% thought that Howard was. Sir Joh won the support of the Queensland National Party for his campaign.

The executive directors of the Centre for Independent Studies (Greg Lindsay), the Institute of Public Affairs (Rod Kemp) and the Australian Institute for Public Policy (me), however, saw the Joh-for-Canberra campaign as a threat to all that they stood for. Without collusion each temporarily abandoned his political neutrality to dismiss it. They had struggled too hard to replace wishful thinking with hard-headed analysis to wish to see their cause corrupted. Centre 2000 threw in its lot with the Joh-for-Canberra campaign and when that ultimately folded, Centre 2000 disappeared from the think tank scene.

Paul Kelly wrote in *The Australian* at the time:

> The economic rationalists and 'Dries' should have no illusions about what is happening in non-labor politics. It is all about power.
>
> Sir Joh wants to achieve dominance over Mr Howard and Mr Sinclair; to bend them to his will. Sir Joh, of course, is not now and never will be a dry.
>
> Mr Howard is the leading political dry in Australia. If Sir Joh's crusade succeeds, then the cause of economic rationalism and the free market approach of the 'Dries' will suffer a major defeat.
>
> Some of the 'Dries' do not seem to have grasped this basic point about the power dynamics of this struggle.
>
> Incredibly, some people who are Dries actually support Sir Joh. Perhaps they should look again at the Premier's record, examine Mr Howard's record, have a chat to Mr Hyde and then have a Bex and a good lie down.[341]

The Joh-for-Canberra campaign did dry policy immediate fourfold damage. First, it gave false hope to people who were not given to studying budgets and tax systems and, worse, it associated small Government and other dry catch-cries with a hope that would all-too-soon be dashed. Second, it showed the world how shallow was the support for several dry causes and gave the Dries' enemies a stick with which to beat them. Third, it seemed to the uninformed to indicate that Dries and conservative collectivists were natural bedfellows. Fourth, it was instrumental in Howard losing his party's effective and shortly thereafter nominal leadership. I believe it was thereby instrumental in the Coalition losing the 1987 election. Andrew Peacock's behavior in his dealings with Sir Joh caused bitterness between those Dries who supported Howard and those who supported Peacock.

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[341] *The Australian*, 20 February 1987

When the Joh campaign struck, during the Queensland election campaign in October 1986, the Liberal Party's opinion poll rating was six percentage points ahead of Labor and the Party seemed to be recovering its *raison d'etre.* Howard's personal popularity (the 'beauty contest' poll) was the highest it had ever been and his status as the leading political dry was clear. Hard evidence of cause and effect is wanting, but at least it may be said that his well-known dry policies had not been inconsistent with rising popularity.

Despite or because of having few policies, the Joh for Canberra campaign had gathered steam over the summer. Peacock remained a political threat to Howard's leadership and there was an endless stream of leaks and media coverage of divisions in Coalition ranks. Remarkably, the Coalition still matched the ALP – sometimes a little ahead, sometimes a little behind – in poll after poll.

Bjelke-Petersen held a successful rally in Wagga in February 1987 but failed to gather the support that would have let him field a respectable team of candidates. Most importantly he failed to attract Ian McLachlan, the highly effective President of the National Farmers' Federation who had managed the live-sheep dispute and a big farmers' rally in Canberra. Ten years later the Hansonites were to do rather better with much the same irresponsible populism but less of the I-have-just-descended-from-Mount-Sinai hubris.

Following upon an intercepted mobile telephone conversation in which Jeff Kennett and Andrew Peacock had discussed Howard in uncomplimentary terms, Howard sacked Peacock. However, as David Barnett observed, the leak of a strategy document was the greater political handicap. The leaks; Peacock's sacking; Peter Baume's resignation over difference of opinion about anti-discrimination policy; fights over Liberal endorsements in Victoria; the Joh campaign's insistence that Federal National Party MPs from Queensland support its policies; the ultimate splitting of the Coalition; Macphee's organisation of the Parliamentary Wets; and other dramas allowed the Government to coin the effective slogan, 'if the Coalition cannot not govern itself, how can it govern Australia?'

True Dries were dismayed by the fact that Petersen, of all people, had been able to portray himself as an exponent of small Government.

Howard's chance of winning the 1987 election received its final blow when it was revealed that his budget policy did not add up. The arithmetic error fell short of destroying the thrust of the policy but it was the final blow to the Coalition's credibility.

That Labor won the July-1987 election was not perceived as necessarily a blow to the dry cause. On the contrary, I rejoiced that Labor's victory had demonstrated that reforming Governments could offend a host of vested interests and still win elections, admittedly with the luck of a self-destructive Opposition. The win had followed the tough May 'mini-budget' intended to cut the deficit by $4 billion, a slight fall in real living standards and refusal to match the Liberals' tax cuts. What is more, the swing against the Nationals was greater in Queensland than elsewhere.[342] The Groom by-

[342] David Barnett, *John Howard*, Viking Press, 1997, p 464

election ten months later confirmed Queenslanders' disenchantment with the National Party since the Joh Campaign.[343] This, at least, was good news to Dries. Had Bjelke Petersen type populism had lasting appeal, their task would have been even more difficult than in fact it was.

Despite Sir Joh, some Queensland Nationals had been elected. These quickly joined the Federal National Party and the Coalition in Opposition . When every card-carrying Liberal wet, bar Chris Puplick, was excluded from the Liberal front bench, the Nats applauded but many of them had been even damper and were to prove so again.

A year later when deregulation of the domestic wheat market was proposed by Labor, the National Party demonstrated its continuing commitment to agrarian socialism. As might be expected, the Liberals supported the move but National Party MPs, who had been vehement in advocacy of a deregulated labour market, wished to oppose it. On the Nationals' behalf, Bruce Lloyd announced that he would propose a plan to strengthen the Australian Wheat Board's control over domestic sales. He revealed that every National member of shadow Cabinet including not only Sir Joh's camp followers but also even John Stone, and Wal Fife of the Liberal Party, had opposed the reforms.

The principles offended by the regulation of both wheat and labour were, as nearly as was relevant, identical. The most significant difference was only that payment in one case was made by weight and in the other by time. The objection to the Wheat Board and the Arbitration Commission was that both were monopolies that fixed prices. The Arbitration Commission set common prices for workmen, the Wheat Board for grains.

When Joh had climbed aboard the dry bandwagon singing that the Coalition was too wet, his only plausible excuse for giving Labor a victory it could not otherwise have anticipated had been rational economic management yet, when put to the test, his supporters had been economically irrational with the worst. With hypocrisy matching anything in their dubious history those Nats who supported Joh had remained true to their roots deep in collectivism and populism.

Howard's 'One Australia'

During 1988, immigration and migrant-settlement policy got Howard into difficulties from which he was never fully to recover. Earlier, Professor Geoffrey Blainey had sounded warnings that immigration was raising tensions which we might in time find to be a problem. For his pains he had disgracefully, but partly successfully, been sent to Coventry. Possibly because it thought Blainey and others might have had a point, the Government commissioned Stephen Fitzgerald, a former Ambassador to China, to report on immigration policy. His Report released in June 1988 had warned that public support for immigration was threatened. It seemed that immigration policy itself attracted only manageable criticism but settlement policies that gave immigrants favours not available to other Australians and encouraged them to retain separate ethnic identities was attracting widespread disfavour. The report was pro-immigration but recommended policies that were focused more upon the national interest.[344]

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[343] ibid, p 496

[344] Paul Kelly, *The End of Certainty,* Allen & Unwin, 1992, p 421

At the Annual Conference of the Western Australian Liberal Party, Howard chose to address immigration policy and Australian unity. The issue was, as Fitzgerald had made clear, already a live one. It was not a wet v. dry issue, save that most Dries believed that it should be debated whereas many Wets believed that debate itself would exacerbate ethnic friction. Howard added to his difficulties by referring to warring Lebanese factions as 'Asian'. Nevertheless, his treatment following the WA speech remains a prime example of the difficulty too often experienced by Australians when tying to engage in civil debate about politically contentious issues. The political storm prevented open debate of the issue itself while stirring it up for private discussion that could not be informed. The One Nation Party later demonstrated that this issue could not be successfully swept under the carpet.

Howard had appealed to popular sentiment by employing the expression 'One Australia'. He was, however, successfully damned as 'racist' by supporters of the ethnic tribalism that passed for 'multiculturalism', the Labor Party and his opponents within Liberal ranks. These all sanctimoniously protested that this one issue was above party politics while ensuring that it was not.

Exactly what Howard meant by the expression 'One Australia' was, thanks to his enemies, never adequately spelt out. It may have implied a melting pot Australia, within which old and new residents all took from, and gave to, a largely common culture. He, however, surely implied at least tolerance on the part of residents and equality of treatment on the part of Government. At issue were the multicultural policies by which the Government unequally provided funds and services to people of only some ethnic backgrounds discouraging their integration with others. Howard's would be political assassins used a politically unwise remark about the level of Asian immigration to remove 'One Australia' from the political agenda. The Labor Government, however, quietly changed family-reunion rules to achieve all that Howard had asked. I think Blainey and Howard overstated the dangers of ethnic division but the issue is debateable and far from trivial. Australia would have been better served if it had been debated.

Dries had defended the boat people and tended to favour higher levels of migration and refugee intake but they mostly disliked the tendency of settlement policies. It was, they believed, past time that ethnic favouritism that was neither random nor targeted to need ceased to be employed for vote buying. Official policy was favouring some races over others. During 1985-86 the multicultural payments made by the Victorian Government alone to Greeks added to $1213 for every new arrival or $5.39 for every member of the Greek ethnic group in that State. At the same time, it spent only $515 per Italian new arrival or $0.98 per member of the Italian ethnic community. Turks and Lebanese did six times better than Indo-Chinese when considering grants to new arrivals and nearly twice as well when comparing them their Australian populations. The German community got only sixteen cents per head.[345]

Immigration that during the fifties and sixties had enjoyed comfortable majority support, by the 1980s, had lost it. The effect of sharply risen unemployment upon the popular misconception that immigration takes from a fixed supply of jobs was

[345] Stephen Rimmer, *Fiscal Anarchy: The Public Funding of Multiculturalism*, Policy Paper No. 15, AIPP

probably the major reason for its lost popularity. Resentment of Australia's particular form of multiculturalism was, however, an unnecessary further reason. Jerzy Zubrzycki, the man who had the best claim to be the father of multiculturalism, was to say publicly 'multiculturalism has clearly gone off the rails', derailed by politicians of every stripe wooing the ethnic vote. He called for the scrapping of the term. Howard had been ahead of his time but unable to communicate his insight either for the nation's or his own advantage.

Also in 1988, Howard opposed an Aboriginal Treaty on the ground that Australian society could not afford two classes of citizenship. His stand in each case was essentially the dry opposition to privilege in any of its forms. He and other Dries found themselves accused of racism for advocating law that was blind to race. They faced three difficulties. One was the cheering of some people of European background who assumed the superiority of their own race or culture and who would not have objected had the discrimination been reversed, that is, who really were racists. Another was the common one of opposition from established interests. The third was that, although the ethnic lobbies behaved only as the textile and motor industries behaved, a politically-correct press corps, unlike its attitude to the protection debate, was disinclined to assess their demands in the light of general principles.

These racial issues allowed the new (trendy) left to reclaim the moral high ground that they had lost in the economic debate. While working class Australians appreciated the dry position without even knowing or caring about the Dries and their arguments, articulate, affluent intellectuals pushed Aboriginal land rights and multiculturalism in its essentially tribal form. The periodic Crossroads meetings failed to address race and did not devise a strategy for dealing with it. AIPP did try to open it up with two publications. The first by Roger Scruton, Frank Brennan and me[346] attempted to start a public debate between people with apparently incompatible views of Aboriginal land rights. It sunk without trace. The second, an essentially statistical assessment of what was actually happening to multiculturalism funding, written by Stephen Rimmer,[347] received more attention. However, even that hard-to-refute paper cost the AIPP influence among at least the staff of *The Australian* newspaper and no doubt in other media circles. That influence was needed for other issues.

Industrial Relations

By the 1980s, the capacity of the centralised award system to inhibit economic growth, cause macro-economic instability and create unemployment was widely understood. It was, perhaps, not so widely appreciated that it also hindered productivity growth by preventing firms and their employees from experimenting with work practices. For only some people the most fundamental issue was not efficiency but liberty – should workers have full ownership of their own labour or should an 'authority' determine how they disposed of it? The Accord was intended to restrict the unions and the Commission's incentives to create the first group of problems – a corporatist brake upon a corporatist system. The Industrial Relations Club wished to strengthen the capacity of the Commission to resist union or employer pressure. Dries, on the other hand, felt that, if the Accord was good policy, then it was

[346] Scruton, Brennan and Hyde, *Land Rights and Legitimacy,* Critical Issues No 1, AIPP, 1985

[347] Stephen Rimmer, *Fiscal Anarchy,* Policy Paper No 15, AIPP, 1988

good policy only within a bad system that they wanted replaced by freedom for the parties to negotiate.

Despite the contrary views of Ian Macphee, who was the Opposition's industrial relations spokesman, Howard told a National Press Club luncheon in August 1983:

> We need an approach which avoids the automatic and unrealistic application of comparative wage justice. We need an approach which is far more market sensitive and flexible than that which prevails at present or prevailed at any time during the period of office of the former Government.
>
> The time has come when we should turn Mr Justice Higgins on his head.

The last was a reference to the 1907 Harvester Case that began centralised wage fixing. Higgins had said that if 'a man could not maintain his enterprise without cutting down the wages which are proper to be paid to his employees, it would be better that he should abandon the enterprise.'

Howard had articulated the essence of the dry argument and, with the assistance of Gerard Henderson who was on his staff, was developing an industrial relations policy around the opportunity for individual employees to 'opt out' of awards. His Press Club address was more than a straw in the wind. It went to the heart of the most important matter on the dry agenda and, whether Howard realised it or not, had implications for trade policy, the second most important item. Without competition in the product markets the cost of inefficient work practices could always be passed to consumers. That is, the incentive to opt out would have been minimal where it was needed most, in the manufacturing and regulated tertiary sectors. To work effectively, his formula required relatively free domestic and foreign trade. His policy was 'softened' in shadow Cabinet to give the Industrial Relations Commission a power of approval over the voluntary deals.

Policies for Business had committed the Coalition parties to flexible labour markets:

> [Our policy] spells out the most substantial and far-reaching reform in Australia's industrial relations system in 80 years…. The policy has the aim of making Australia more productive and more competitive, of creating new jobs and thus improving the living standards of all Australians. The keynote is to create prosperity through productivity by enabling employers and their employees to reach mutually agreeable decisions on conditions of employment and work practices, under a system of voluntary, legally enforceable agreements. The policy is to improve industrial harmony, promote workplace flexibility, enhance productivity and bring unions back within the rule of law….[348]

When Howard spelt out his industrial relations policy in a *Sydney Morning Herald* article, Peacock accused him of 'destabilisation'. Indeed it was. Howard faced the same dilemma that the Dries on Fraser's backbench had faced, with the added difficulty that he was not on the backbench. Did he let good policy go by default or did he destabilise? Was the goal to be office or good Government? And, of course, ambition drove him to out-perform Peacock.

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[348] *Policies for Business,* The Liberal Party, pp 14-17

When the Hancock Report came down, Peter Shack, who had replaced Macphee as industrial affairs spokesman, welcomed it because it took account of the national interest while Howard panned it because it retained the inflexible centralised system. Howard's approach was predictably dry; Shack's was surprising and a mark of Coalition disunity. While organising the two-airline campaign four years earlier, he would not have 'gone public' without rounding up support and checking his own, necessarily hastily-made, judgements. For Howard to react without first taking the trouble to bring the party's designated spokesman around to a common view was probably more naughty than careless. The tension in the party was prohibiting co-operation.

Later, during his own leadership, Howard explained his 'opting out' provisions to the Business Council. It was not surprising that some of the damper corporatists of that grouping opposed them. Their opposition to the IR policy and some other better-directed criticisms were leaked in detail to the *Australian Financial Review*. A senior businessman protested to methat none of the businessmen present would stoop to leaking. I told him that I would not know about that, but that this time no one suspected them.

Later again, the Labor Party received another document prepared by the Liberal party Secretariat. It named potential supporters of labour market reform among business leaders and press. Following the leaks, the *Sydney Morning Herald* wrote 'The Shadow Minister for Leaks strikes again'. The leaks' significance from a purely dry perspective was only that Liberal Party infighting was making it difficult to advance the reform agenda.

One leak did, however, give industrial relations reform an unexpected and significant shot in the arm. It was a leaked submission by Charlie Fitzgibbon, the national secretary of the Waterside Workers Federation, to the Economic Planning Advisory Council (EPAC). Fitzgibbon advocated enterprise agreements between managers and employees of small businesses that were outside the award system and said that ending comparative wage justice could do no harm. His submission acknowledged that, if employees insisted upon a bigger proportion of economic production, then that could result in lost competitiveness and growth, and increase inflation. Furthermore, he said that believing in protection for Australian industry was like believing in Father Christmas.[349] The importance of the submission was not in what had been said but in who had said it. Here was a senior trade union official who was well on the free-market side of the Liberal Party Wets.

Without this help from Charlie Fitzgibbon, the Coalition Industrial Relations policy announced in April of 1986 might have been damper than it was. In the event, it committed the Coalition to: voluntary agreements; a Commission that took account of the effects of its decisions on employment, inflation and competitiveness; voluntary unionism; youth wages; and legal aid for parties suing for damages when agreements were breached. The Coalition had abandoned replacing the Commission with a more powerful enforcement body. It, however, contained one not-dry provision, essential-services legislation. This last would have weakened the union stranglehold but was

[349] David Barnett, *John Howard*, Viking Press, 1997, p 370

not consistent with market negotiation. The policy received the blessing of both the Business Council and the Confederation of Australian Industry.[350]

By the end of the 1980s the links between factor and product markets were more often recognised in public debate. For instance, responding to an assertion that, whoever won the coming election Australians would savour enterprise bargaining, Norm Dufty, Visiting Fellow of Industrial Relations at the University of WA had commented: 'Only if something is done about union power on the one side and tariffs and anti-competitive regulation on the other'.

The Liberals had grasped the point and the Opposition's Industrial Relations policy that enhanced the role of enterprise unions at the expense of craft unions also promised to reduce protection. Here it ran into the opposition of the Confederation of Australian Industry.

The Business Council of Australia was less hypocritical. Its paper, *Enterprise Bargaining Units,* called for abolishing the unwarranted privileges of both capital and labour. To reduce unwarranted union power, it argued for 'unions representing employees in a work place' and for abolishing the 'conveniently belong' clause of the Conciliation and Arbitration Act. To reduce unwarranted employer power, it called for the opening of the economy to international competition which was, it said, essential to achieve adjustment of work methods, orderly and amicable dispute settlement, fair remuneration, and encouragement of a competitive, productive culture. Both the CAI and the BCA recognised the danger of weakening centralised discipline that sometimes exercised some moderating influence over unions. The CAI response had been to retain and strengthen the coroporatist system while the BCA broke with the traditional big firms' attitude to advocate competition.

For four years the Coalition had publicised, explained and defended its IR Policy, against vehement opposition from the IR Club, gradually winning support from important groups such as the Business Council. Although Labor dared not admit it, second-tier bargaining had been a small step towards implementation of Coalition policy. Many people were, nevertheless, already asking whether the Coalition in Government would implement its policy.

Privatisation

By the first half of 1984, in the relatively early days of Peacock's two-and-half-year first leadership and well before the Hawke Government began selling off state-owned trading enterprises, the Coalition's policy undertook to privatise the Australian Industry Development Corporation, Medibank Private and the Housing Loans Insurance Corporation. It promised further to consider sale of the OTC, Aussat, TAA, the ANL, Telecom, the Commonwealth Bank and the Pipeline Authority when it had the experience of the first three.[351] During the second Hawke Government and while Peacock still led the Liberals, citing Britain's success under Thatcher, Howard asserted publicly that Telecom, Australia Post, the Commonwealth Bank, TAA and Qantas should be sold. More destabilisation but again more long-term policy.

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[350] David Barnett, *John Howard*, Viking Press, 1997, p 371
[351] David Barnett, *John Howard*, Viking Press, 1997, p 266

Howard's First Leadership II

The 1987 election was followed by the October stock market crash and a difficult time for the Government. Howard by then led the Liberals, Peacock was his Deputy and John Elliott was Liberal Party President.

It was at this time that Howard departed far from principle during the Adelaide by-election by condemning the Government for the mooted introduction of timed telephone calls. The Liberals descended to cynicism to win a seat that could not affect dominance of the Parliament. The Coalition's reputation for integrity – desperately needed when Keating later lied successfully about Hewson's GST – was impaired for nothing worth having unless it was to save Howard's leadership from Peacock, which it failed to do anyhow. Indeed some of Howard's drier supporters were heard to ask: why bother to save him?

Howard's standing was being undercut. Elliott, who may have been the victim of a businessman's political naivety as much as his own arrogance, kept buying into policy issues. Howard could not carry his preference for leaving media ownership issues to the market in either the shadow Cabinet or the party room. Bowing to pressure from colleagues, Howard promised that a Coalition Government would not introduce a broad-based consumption tax in its first term. But, as already noted, Dries were not of one mind upon consumption taxation.

Nevertheless, the *Future Directions* policy statement issued at the end of 1988 was basically a dry document emphasising economic responsibility, one nation of legal equals, and family values. It began, moreover, with a coherent statement of principles that joined social conservative values and economic liberalism. Had future Coalition policy prescriptions, especially *Fightback*, done the same they would have been more convincing and more difficult to attack. A Liberal Party survey indicated that *Future Directions* had 70% community approval and Labor spokesmen were cautious about criticising it. It was, however, roundly condemned in chattering class circles. The *Sydney Morning Herald* said it was 'Forward to the past' and *The Telegraph* 'Back to the Future'. Both found the emphasis on the conventional family outdated.[352] Its cover had displayed a conventional family of a couple and two children in front of a home with a white picket fence. The picket fence (of all things) became the focus of venom.

Under Howard the Liberal Party had to a large extent freed itself from vested interests such as protected industries, Industrial Relations Club members and farmers' organisations. As much as disunity, the fact that its policies were not for sale may have been why it was unable at this time to match ALP campaign spending.

The Second Peacock Leadership

When on 9 May 1989, the Liberal Party room rolled Howard, replacing him with Peacock, it was not an event greeted with widespread dry enthusiasm. The coup had been masterly if morally questionable. A week later, however, when Four Corners interviewed the principal plotters, two, John Moore and Wilson Tuckey, could not resist boasting their own brilliance during what must rank as one of the most egotistical and stupid television performances of all time. Peacock was off to a bad start.

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[352] David Barnett, *John Howard*, Viking Press, 1997, p 527

He never really recovered. Despite an initial assurance that *Future Directions* was sacrosanct, the Peacock team replaced it with a new policy statement, the *Economic Action Plan*. Its analysis of Australia's economic dilemma was conventional:

> The principal economic challenge.... is to restructure our economy to deal with external debt.... We are entering a self-perpetuating debt trap.... Australia urgently requires a major shift of resources into the traded goods sector.... To achieve this task we need to contain our consumption levels; to boost savings; and to boost our productivity and production by engendering a period of sustained investment principally in the traded goods sector.

It did not adequately face the problem of how Australians were to be induced to save more of their incomes but was better when discussing how those incomes were to be increased. Any real attempt to deal with the penalty that direct taxes impose on savings was absent but the promise made in *Future Directions* not to introduce a broad-based consumption tax in a coalition Government's first term was gone. The proposed budget surplus that would have been largely offset by State deficits was inadequate. A promise to replace capital gains tax with a speculative gains tax at an annual cost to the revenues of $450 million would have been administratively difficult and probably on balance counterproductive.

Over half the Coalition's budget savings were to come from limiting unemployment benefits to nine months' duration. I argued at the time that, to be fair, the proposal had to be accompanied by the radical labour market reform that would allow the low-skilled to get employment. Nearly all of the savings made by cutting expenditures were to be spent on two items, tax rebates for families with children, costing $1000 million, and non-means-tested rebates for families that had two incomes and put their kids in child-care facilities costing $820 million. The policy statement, in fact, contrasted favourably with those that had, before the Hawke Government, been released by parties in Opposition, but the times had changed. The Coalition was shying at tough choices.

It is as important to know how the Coalition failed as how it succeeded and nothing illustrated the failure better than healthcare. There had been much talk about $2000 million potential annual savings in health care. The figure was nonsense, but substantial costs could have been justly and efficiently transferred from taxpayer to private budgets. Sir William Cole, writing for AIPP, estimated that budget savings of about $800 million could have been made without prejudicing low-income people.

Peter Shack, now Shadow Health Minister, had drafted a health policy that would require those members of the middle class who were not privately insured to buy insurance. Because it called for 'losers', it was unacceptable to his vote-conscious peers. It was, nevertheless, a good policy that would have provided more choice for patients, a more level playing field upon which to conduct the competition between public and private insurers, and competition between public and private hospitals.

Peacock failed the prime test of dryness, the ability to face facts. The way healthcare costs were met could have been varied between fees, insurance premiums and taxes but, efficiency gains apart, it was not possible for an insurance arrangement to make some people better off without making others worse off.

He did no better with interest rates. When Labor admitted that in the prevailing economic circumstances interest rates would have to remain high Peacock asserted that under an incoming Coalition Government they would fall.[353] The undeliverable promise was one that other irresponsible Oppositions and Fraser in Government had also made – but times were different! Other Coalition spokesmen agreed with the Government and Peacock looked foolish.

The State of the Opposition at the end of the 1980s

In December 1989, I wrote for *The Australian*:

> It is almost ten years since four Liberal Party MPs and one ministerial staffer set out to change the direction of the Liberal Party. They, and those who joined them, became known as 'the Dries'. The original Dries, who were at one time an effective team, were dispersed by electoral fortunes. Recently, the fact of the Peacock coup and the manner in which it was conducted have divided the remaining Dries. The Liberal Party has travelled a long way since 1980 – but not always at the Dries' behest and not always in a constant direction.
>
> The Dries were disrespectful and critical – their unsettling ideas undoubtedly caused the Liberal Party some pain. So long as the Liberal Party believed in little, unity was easily maintained. But as soon as the Dries started to spell out the implications of the classical liberal position, which we asserted was the natural philosophy of a Liberal Party, others, who became known as 'Wets', demanded an interventionist utilitarian form of liberalism. The wet arguments, except in the area of environmental legislation, have been substantially defeated by argument, by events here and overseas, and by the Labor Party adopting dry policies. Most Liberals were, however, neither wet nor dry – they just hoped the questions would go away and stop costing them votes. Some of the Wets, especially the late Alan Missen, earned my profound, if at times grudging, respect. Not so those who wanted the issues to go away – the pragmatic vote-seekers.
>
> Although plainly some of my dry colleagues of old see it differently, I see in Peacock's ascendancy a return of old ways – of the political pragmatism that so wasted the Fraser years. Electoral pragmatism has been responsible for more of what the Garnaut Report called 'economic dead weight' than have been the activities of the few true Wets.
>
> Some long-time Dries and some more recent converts believe that, like puppeteers, they can control Peacock. With some justification they point to the way that economically rational ministers, such as Keating, Walsh, Button and Kerin, periodically force economic sense upon the Prime Minister. I don't entirely share the confidence of these dry Peacock supporters. In the first place, the Labor Party puppeteers do not always succeed….
>
> We might take comfort from recent events. When Mr Peacock predicted a massive fall in interest rates, his economic lieutenants refused to support him, the party line was restored to something plausible, and no great harm was done. Peacock was written down as a person of little economic literacy – indeed of even less than the Prime Minister. Economic literacy is not a prerequisite for successful Prime

[353] David Barnett, *John Howard*, Viking Press, 1997, p 565

> Ministership and the matter died, as it should have done, if that was the correct interpretation.
>
> Again I am not quite so sanguine. I do not think Mr Peacock is economically illiterate. That leaves the much more damning possibilities: that he did not care; that he was driven by the opinion polls; that he had returned to the behaviour the Dries first set out to combat.
>
> The next Government will either be economically prudent or risk seeing the economy collapse about its ears. Under Mr Howard, although not because of him alone, the Liberal Party briefly became a party with a classical-liberal mission. That it did so was not an accident but was planned by, among others, Mr Carlton and Mr Shack – two of the original gang of five – yet they both supported Mr Peacock against Mr Howard. Maybe they were right, but only if they can promise to deliver Mr Peacock to the dry cause whenever that becomes necessary.

As the 1990 election approached Liberal and National Parties were out of office Federally and in every State but New South Wales. They had lost three consecutive Federal polls, the last two of the three in economic circumstance that should have assured victory. They had failed, albeit by narrow margins, to defeat State Labor Governments in Victoria, Western Australia and South Australia that had demonstrated both incompetence and want of a proper regard for the proprieties of office. Following the Peacock coup, the Liberal Party's professional image-makers could do nothing because their polling told them that a resolute Mr Peacock was not a believable image. For some time before Peacock replaced Howard, the Coalition had been about 3 percentage points ahead of Labor in the opinion polls but the chief plotters had sought to justify their actions by saying that, in all the circumstances, the lead should have been much greater. Shortly after the change of leadership the Coalition slipped to about 3 percentage points behind Labor and stayed more or less there until the election. It may hurt elites to believe it, but voters respect principles and are perceptive.

Because of the bitter internal wrangles, the Coalition seemed more directionless than it was. It in fact had more detailed, more economically-responsible and less-cynical policies than at most times in its history. Voters, however, had the choice of an unusually economically responsible and principled Government and had raised their standards accordingly. Labor, by implementing the economically responsible policies, had taken from the Coalition its usual electoral asset, that of being the better economic manager.

When Hawke called the March 1990 election the Coalition decreased Labor's majority but, nevertheless, lost. That the Coalition could have lost the election when Labor was presiding over the then levels of inflation, interest rates and debt was remarkable. Liberals told me that their disenchantment with Howard had little to do with ideology but that his leadership style and inability to organise had become unbearable. Nevertheless, the choice of Peacock had had what some saw as the benefit of blurring the distinctions between disparate opinions within the party. That could not, however, be done without also blurring what the party stood for. The genie that the Dries had released was not so easily put back in the bottle!

Had it not been for the TV appearances of the coup leaders, even with hindsight, I might have said that the coup was a misguided action by people with a genuine concern for the party. They, however, had revealed that disaffection with Howard had been orchestrated. Others shared my wrath.

Following the electoral loss, the Party had to choose a parliamentary leader. Peacock was finished and Howard would have been the focus of too much bitterness and was himself too bitter. Chaney, who could have had the leadership if he had shown a deputy's loyalty at the time of Howard's dismissal, had sacrificed his strongest card.

The Party Room elected the inexperienced John Hewson with Peter Reith his deputy. Hewson an economics professor with a background in international finance had been a member of Howard's personal staff during Howard's time as Treasurer and in mid-1987, at the age of only 39, had won the safe seat of Wentworth at a by-election. He won the leadership because all the experienced contenders had acquired too much baggage for one or other of the anti-Howard and anti-Peacock camps to accept. Although a compromise candidate, he proved more rigorously dry than any leader before or since. Although ideology and accusations of bastardry divided his party, he led the most united Liberal Party for decades and the most united Coalition ever.

At the same time Tim Fischer won the leadership of the much-depleted National Party. His leadership of that Party was even more significant for its new-found dryness than Hewson's for the Liberal Party. Under Fischer, the Nats abandoned minor-party cynicism and as much rural socialism as it dared to contribute to the Coalition's common cause. This Coalition team too was, however, to lose an 'unlosable' election.

Opposition policy under Hewson

Ian McLachlan, the ex-President of the NFF who had declared that farmers 'are not after short-term handouts from this or any other Government' and who had been wooed unsuccessfully by the Joh-for-Canberra push, was now the Liberal Member for the safe seat of Barker and the Shadow Minister for Industry and Commerce. Only eight months after his election and his party's defeat, he promised on behalf of the Coalition that 'by the year 2000, all forms of protection for all industries will be, at most, negligible'. This was the Garnaut recommendation but one that neither John Howard nor Andrew Peacock could have led the Coalition to accept. Courageously, it rather than Labor now set the policy agenda.

Hewson, Fischer, Reith, Howard and others in the Opposition ranks of the time all laboured hard over policy. When Hewson won the leadership, Coalition policies had already included:

- waterfront reform to match New Zealand's doubling of productivity,
- the opportunity for employees and employers to strike agreements outside the awards,
- an end to cabotage rules that prevented foreign vessels from competing for cargo on the Australian coast,
- reform of telecommunications by the introduction of full competition, privatisation, and the placing of 'community service obligations' within the national budget,
- privatisation of Government business enterprises, and

- the introduction of a broadly-based goods and services tax (GST) to replace the wholesale sales tax and to allow income taxes to be reduced.

Only rural policy was still unambiguously on the collectivist side of Labor. Even there, however, Hewson and Fischer managed to prevent the Coalition from opposing John Kerin's liberal reforms.

Without political risk, Labor was now able to adopt Coalition policies, as once when the trend was in the opposite direction the Holt, Gorton and McMahon Governments had 'stolen' Labor's policies. The tightening of administrative procedures for invalid pensions and unemployment benefits, the consolidation of employment training programs, a reduction in the ease with which Austudy could be claimed, concessions made to enterprise bargaining, the mooted privatisation of Australian Airlines, the partial privatisation of Qantas and the Commonwealth Bank, were all Government policies previously advanced in the Coalition's *Policies for Business* and elsewhere.

The Opposition no longer needed to carp to distinguish itself from Labor. When it broadly agreed, as it did about sending ships to the Persian Gulf and lowering the wool reserve price, it said so. The Federal Coalition looked less divided, more confident and more principled than at any time since well before it lost office.

Fightback

Governments often fail to appreciate the unintended consequences of policy changes and Oppositions, for want of resources, are far worse placed. They are easily snowed by selectively-chosen data. Nevertheless, the policy package the Opposition now developed achieved a greater degree of rigour and absence of political fudging than any before or since. The legacy of the squandered opportunity of the Fraser years still haunted its policy making. It desperately wanted to govern but had become convinced that it must do so on merit. I thought that this was more a moral than a tactical decision. Be that as it may, with the arguable exception of the pricing of petroleum products to keep the National Party constituency on side, it abstained from sucking up to organised interests – the public-choice political game.

Hawke had not addressed the reform that would have done most to reduce injustice and raise efficiency – that of the labour market. Australians had, nevertheless, been given much greater freedom to invest and consume and were in a better position to cope with future shocks than they had been in 1983. In 1991, however, this was evident only to those who understood and accepted the economic arguments upon which the reforms had been based. Misdirected investment in capital and people is not quickly remedied. Even the best of policies have long lags. Many of the inefficiencies that had developed in the less competitive economy were at the beginning of the nineties being identified by commercial losses, downsizing and even bankruptcies, which are seldom popular. The Hewson Opposition could, therefore, very easily have made political capital out of the Hawke reforms as the Fraser Opposition had done in 1975 with the 25% tariff cut. That it chose not to reflects credit on its leadership that I believe is without parallel. Instead, it developed policies to take over from where the Hawke Government had arrived. This time it would be Labor that behaved unconscionably.

Howard worked on an industrial relations package of the type that he had long advocated, in due course to be labelled *Jobsback*. Hewson led others developing a

more comprehensive package covering all of the important areas of governance and including an excellent philosophical statement. In due course it was called *Fightback*, a title that came to be used to refer to both. It was the culmination of the steady drying-out of policy during the 1980s. The Liberal Party had run with what had been in essence the *Jobsback* policy in the 1987 and 1990 campaigns.

Fightback did not begin with philosophical principle to then build policies logically upon it. Had the document been organised differently the consistency of the whole might have been more apparent, especially as most people are less at home with economics than with moral philosophy. It would have been more difficult to characterise the package as a sop to the greedy, which it was not. On the contrary, its effects upon disposable income were progressive, but few people trusted politicians' figuring or could check the tax arithmetic. The statements of basic principle were there for the serious reader but lost in tax mumbo jumbo and econometric detail for the casual one. One chapter, *Framework for Certainty: A New Role for Government,* made it clear that the certainty promised was fair rules, not particular outcomes. Even this quite fundamental division between socialists and liberals barely entered debate that was dominated by tax, much of it tax-trivia.

Fightback directed welfare away from the greedy and towards the needy; opposed privilege; and set out to strengthen three proven institutions: the family, the federal structure and to a minor extent the parliament. It undertook to:

- reduce income taxes by 30%;
- abolish the wholesale sales tax, payroll tax, petroleum products excise; superannuation lump sum tax, training guarantee levy and coal export duty;
- phased out customs duties by 2000; and
- reduce the capital gains tax and fringe benefit tax.

These measures were to be financed by:

- a 15% Goods and Services Tax; and
- $4 billion net expenditure reduction.

Expenditure cuts totalling $10 billion were identified but $6 billion was required to compensate low-income people for the price rises occasioned by the GST.

The package began the task of addressing the nation's low and declining propensity to save by offering tax concessions for long term savings via superannuation. It began to address the health insurance problem by offering low-income people tax credits for health insurance and applying a tax surcharge to high-income people who did not insure – the 'losers' that had been unacceptable when Shack had proposed his health policy to the Coalition. It began to address the inequity faced by single-income families with children by increasing family allowances and the dependent spouse rebate for families with children.

Fightback's promise to cut tariffs 'to negligible levels by the Year 2000' was an appreciable but modest increase in the rate of tariff reduction initiated by Labor. It was appreciable because the proposed reduction was to include passenger motor vehicles and textiles, clothing and footwear.

Industrial relations were to be reformed by allowing employees individually or collectively to enter employment contracts. (The Industrial Relations Commission had conceded the principle by allowing work-place agreements, albeit hedged with

restrictions to protect its own ultimate authority.) The parties to work-place bargaining could engage unions, lawyers or other negotiators to assist them. It mirrored the New Zealand reform. Guaranteeing the right not to join a union as well as to form or join one ensured freedom of association. These measures would have effectively removed the unions' legal privileges and brought labour markets within the ambit of the rules of the common law. Recourse to the ordinary civil courts, rather than the proposed industrial court was offered and sections 45D and 45E of Trade Practices Act outlawing secondary boycotts remained in force. An office of the employment advocate was to be established to provide a low cost settlement procedure for people who believed that they had been unfairly treated in negotiations. Four weeks annual leave, two weeks non-cumulative sick leave, and twelve months unpaid maternity leave were to be guaranteed for employees of twelve months standing. Overtime rates were to be by agreement of the parties. Hewson had wanted to abolish the Industrial Relations Commission altogether but Howard had successfully argued that that would be too great a break from past practice.[354]

The case for labour market deregulation had been much assisted by disputes that emphasised the ridiculous nature of the award system – Robe River, APPM, Queensland shearers, the waterfront, and the building industry. Some unions had made the mistake of defending work habits that most other unions fervently wished would not become public knowledge. Would the Coalition have fared better if it had fought more upon industrial relations and less on tax reform?

Government trading enterprises that the Hawke Government had not yet privatised were to be sold to private investors.

The policies were instructed by coherent beliefs. These were:

- comfort with Australia's history and Western traditions such as the rule of law, private property rights, popular capitalism, democracy, equality of the sexes and tolerance itself;
- the promise of one nation of equal citizens governed without fear or favour;
- security from internal and external threat;
- the necessity of regaining the relative wealth that Australians had once enjoyed; and
- strong but limited Government that stuck more closely to its essential tasks.

Its authors were clear about the pernicious role of interest groups and rejected clientism and corporatism.

> Over this century various powerful interests - private companies, Government authorities, trade unions, and, increasingly, powerful lobby groups - have trampled the freedom of the average citizen. Notwithstanding attempts to justify these intrusions in the public interest, they have mostly been at the expense of the majority of people. The powerful have extracted benefits and privileges for themselves: special protection and regulations, generous subsidies, compulsory memberships. The costs have been higher prices and higher taxes, lower economic growth, less innovation, and declining international competitiveness.[355]

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[354] David Barnett, *John Howard*, Viking Press, 1997, p 605
[355] *Fightback* p 26

Fightback outlined the nature of the legal and economic framework within which markets must operate if they are to be efficient and fair. It was promptly described as 'ideological', although, less pejoratively and as fairly, it might have been portrayed as 'philosophically consistent'. Since the first Crossroads meeting, Dries in and out of the parliaments had been developing their own and public understanding of several principles that had clearly influenced it.

From the late 1970s, the nature and role of 'community' had been much discussed with a growing appreciation of the role of voluntary associations. Here too, *Fightback* tended to be ahead of its political time – ahead of British Prime Minister Blair's Third Way, and coincident with the Pope's 1991 encyclical *Centesimus Annus*[356] and Robert Putnam's *Making Democracy Work.* Of the voluntary associations, families received most attention. Partly as a result of overseas work but also because of work that Barry Maley had done with the CIS and Alan Tapper with AIPP and the CIS in Australia, *Fightback's* authors appreciated that Government policy was actually inhibiting the upbringing of children in stable two-parent families. The role of private-sector charities and of the informal welfare available from relatives, friends and neighbours was contrasted with public sector welfare. Private health care was contrasted – sometimes favourably sometimes unfavourably – with public provision.

Of course the package had flaws. Government policies, let alone those of Oppositions, are prone to misjudgement and error. There was doubt that the spending cuts were achievable, and it was generally conceded after the event that the package had a 'black hole' of about $3 billion. Even that sum was, however, within the margin of error of many recent Government budgets.

Fightback's centrepiece was, nevertheless, tax reform which was not at the top of the dry agenda. Many leading Dries, of whom I was one, referred to it as a second order issue. They believed that the GST was a substantial improvement but were disappointed that it was allowed to swamp more important parts of the package – industrial relations, trade, family and welfare policy and expenditure reduction. John Stone wrote, 'The Opposition is in danger of sacrificing reforms that are fundamental to Australia's future, for the sake of a third order reform which is not'.[357]

Far from keeping its ideas under wraps until Election Day approached, the Opposition tried to taunt the Government with them as they were developed. It stated explicitly that it should have a mandate to implement its policies should it win the next election and a sufficient reason to call another election should the Senate block them.

By late 1991 the Coalition was ready to launch *Fightback* and did so in November. It was the most radical reform program ever attempted by an Opposition described by

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[356] *Centesimus Annus* was a thoroughgoing endorsement of a free-market economic order that gave much-needed recognition to the ethics that sustain markets equating justice not only with an absence of force and trickery but also with mutual agreement. The encyclical implied approval for the privatisation of welfare delivery but offered no escape from the obligation to be charitable.

[357] *The Australian Financial Review*, 19 September 1991

Hawke Government Minister Neal Blewett as 'a comprehensive plan for economic renewal'.[358]

Coalition Resolve

During the first half of 1992 a revolt against the Federal Coalition's undertaking to reduce sugar tariffs developed in the party room. By the accounts that came to me, the Coalition Joint Party meeting that dealt with the Queensland National Party sugar rebels was like none that I had experienced. Backbench MPs gave 'sugar-rebels', Senators Boswell and O'Chee, a verbal savaging. A Liberal MP, a survivor from my own time in parliament, told me: 'We have had other demonstrations of party room wrath, even one or two of similar intensity, but those were all backbench versus the Government. This was backbench versus backbench'.

Fascinated, I devoted a day around Parliament House to trying to understand the phenomenon. Several Coalition MPs, who had been involved in the bitter Peacock/Howard, Fraser/Snedden and Sinclair/Bjelke-Petersen disputes spoke to me as though cheerfully-conceded solidarity was a natural state of Coalition affairs. I listened slightly open-mouthed.

Although, as the Party Room episode had demonstrated, the pro-solidarity forces were temporarily overwhelming, they were not complete. While I talked to about a quarter of the Party Room, it was not a cross-section. A few bitter old bunyips growled away and there were still some Wets. But the same personal characteristics that prevented these people from standing up to vested interests prevented them from standing up to committed colleagues.

There was also another exceptional feature of the sugar revolt. The Queensland Nats were not just another group of rebels. They had been associated with the Joh-for-Canberra campaign that in 1987 had destroyed the Coalition's reasonable expectation of victory. Others beside Boswell and O'Chee attracted criticism but not the same resentment. For instance, Ray Braithwaite, also a sugar rebel but not a Joh-for-Canberra man, was hardly mentioned, even though, as a Shadow Minister, he had the clearest obligation not to deviate from the Coalition line.

The sense of purpose in Coalition ranks was like nothing that I had experienced. Hewson had characterised the demand that the Coalition oppose the reduction in the sugar tariff as a return to pork-barrel politics that breached principle and nobody that I spoke to contested his characterisation. Instead, the comment from one who had once been a committed wet was, 'Give in to one and you open the floodgates'.

Hewson and Fischer could have fudged the sugar issue by, for instance, supporting a pious, ineffectual amendment , in the Senate to a forthcoming tariff bill, or supported a motion calling on the Government to delay sugar tariff reduction until, say, progress had been made with labour market reform. But they had not.

When I suggested that the Coalition had survived 'a baptism of fire' (not really an appropriate metaphor), I was told not to talk nonsense. I was reminded that the joint party room had risked Coalition disunity to support correct Government policies when

[358] Neal Blewett, *A Cabinet Diary,* Wakefield Press, 1999, p 12

the Government reduced the wool reserve price and when it had deregulated the domestic wheat market. These episodes had, I was assured, presented them with bigger problems.

I concede that it was clearly in my informants' interests not to say anything I might interpret as disunity in my newspaper column. However, I knew these people. If I was being lied to, surely they could not have sounded so convinced. The phenomenal sense of purpose was not to last beyond the election but was, given the coming vicissitudes, to hold remarkably well.

Fightback's Failure

Initially *Fightback* was well received but because the policies were known, they could be evaluated and also misrepresented. Keatingset about the latter with characteristic vehemence singling out the GST despite it being in all its essential elements his own Option C. With scarcely believable dishonesty, despite the abolition of the wholesale sales tax and other taxes, *Fightback* was portrayed as raising prices by the full 15% of the tax. Despite more than adequate compensation for the consequent price rises, the tax changes were portrayed as regressive. Not content with misrepresenting the GST, Keating attacked even Hewson's tariff reduction policy that was so close to his own, labelling him 'Captain Zero'.

Keating's behaviour was cynical. It was the more so because the Opposition had denied itself the political advantage that it could, with similar behaviour, have extracted from the Hawke Government's reforms. Keating might justify his treatment of *Fightback* by referring critics to Fraser's use in 1975 of the 25% tariff cut and with greater relevance to Fraser's misrepresentation of Labor's housing taxation policy in 1980 but not even in politics do two wrongs add to a right. Keating traded the opportunity of a very honourable place in Australian political history for another term as Prime Minister.

By campaigning on a platform that would eliminate so many privileges at once, the Opposition had left itself vulnerable to criticism from many disappointed vested interests. This had been anticipated, but it had been reasoned that by attacking privilege on a wide front, self-interested people would be able to appreciate their own advantages from elimination of other's privileges. Roger Douglas had argued that his experience was that New Zealand's public had reacted with considerable sophistication to the Lange Government's comprehensive reforms.

There were however important differences between the Australian situation and Douglas's experience. Douglas had not announced policies, but undertaken them and then defended them. Thus, some of the benefits were visible and the costs less readily beaten up. Because his reforms were already in place, vested interests faced a more difficult hurdle that they did not always attempt. Nor had there been anyone in New Zealand with Keating's ruthless campaigning skills. Finally, even though Australia was suffering the 1990-91 recession, Australia, unlike New Zealand and later Victoria, was not in such deep economic trouble that most people understood the need for radical policy.

On top of the politically-inspired misrepresentation, the Coalition found itself under sustained self-interested but reasoned attack from the superannuation and tourist

industries. The people concerned were short-term losers from the proposed policy changes and their complaints were to be expected. Some of their tactics were, however, outrageous. David Jull was then the Opposition tourist industry spokesman. During the course of the campaign a tourist industry lobby typed his name on a document he would not sign and leaked it to the Government, which claimed that Jull had signed it.

The partisan and short-sighted criticism of the social security lobby was more serious. As was that of several Catholic bishops who claimed that the GST, when applied to 'essential food' or in some contexts just to 'food', was a fundamentally immoral tax. They did this despite Italy's indirect taxation applying in the Vatican and *Centesimus Annus'* advocacy of undistorted markets. These bishops issued a statement on the GST in which they said that Governments should have a preference for the poor. The Coalition, however, proposed to over-compensate the poor for the GST's consequences, that is, the Fightback package was progressive. Starting from the correct contention that the tax without the compensation would have been regressive the bishops indulged in some interesting casuistry leading to the contention that taxing food was, like blasphemy and fornication, wrong. Yet they did not call for the abolition of the wholesale sales tax or the tariff that also taxed food. The bishops could not have been so ignorant of the Australian tax system that they believed their own statement.

Hewson, like John Howard, also had to contend with criticism made in public by Malcolm Fraser. It is not axiomatic that ex-Leaders should refrain from trying to discredit their successors but the case for the silence assumed by Menzies and Hawke is a strong one.

The media, anticipating a Coalition victory, concentrated on the real and alleged flaws in Opposition policy without distinguishing between the trivial and the significant. It did not address Government policy. *Fightback* was analysed, criticised and torn to pieces, a legitimate media activity, while the Government's much dodgier *One Nation* statement almost escaped critical analysis. The bias was not ignorance on the part of the press that needed to apply only the same standards to *One Nation* that it was applying to *Fightbac*k. Journalists have since excused themselves to me by saying that they did not expect Keating to win. They had, however, posed as reporters and commentators, not as political players. The power of the media is exaggerated and they are not as uniformly biased as people on both sides of politics contend, nevertheless, no amount of charity can absolve them from their comparative treatment of *One Nation* and *Fightback.*

When *Fightback* ran into difficulty, the business community, which had sought the tax reforms, was conspicuously silent and it looked as if it were having second thoughts. Liberal politicians quip, 'You can rely on the support of business at any time except when it is needed'. Some businessmen enjoined the Coalition parties to back off the proposed Goods and Services Tax, not because it was a bad policy, but because it was politically too difficult.

The car industry, that had in June 1990 made the joint submission to the Industry Commission favouring ongoing tariff cuts as long as these were accompanied by comprehensive measures to reduce cost handicaps, essentially the *Fightback* offer,

reverted to type. Led by Jacques Nasser of Ford Australia it now began to oppose *Fightback*. In response, Hewson commissioned ACIL that had helped prepare the industry's IC submission to estimate the consequences of Fightback for the industry. ACIL showed that the average car would cost less, profitability per car would decrease, new car demand would rise substantially and component exports would rise substantially. Spokesmen for Ford and Toyota dismissed the report but the authors were vindicated when tariff and car-tax cuts similar to those proposed in Fightback were implemented. General Motors and Mitsubishi, however, did not join the Ford-Toyota push.

The forces marshalled against *Fightback* were considerable and included some whose enmity Hewson probably felt that he did not deserve. Although their motives varied, Keating conducted their performances and they played to the rise and fall of his baton. Although it is easy to mount an ethical case against him, his performance was masterly.

As the election approached the GST became a huge liability. It was, however, by then sunk political capital no longer available to the Coalition Parties for other ends. Had Hewson abandoned tax reform, his backbench and the National Party that had not found it easy to go along with several of the Coalition's more free-market policies, would have revolted over one policy after another. Nothing is worse for morale within political parties than policy reversals. Other policies, including labour market reform, would then have been challenged, perhaps successfully. Although staking so much on the Goods and Services Tax may have been politically unwise, it soon became too late to abandon it.

By the end of the year *Fightback* was in serious trouble and Labor was in front in the polls. Hewson, under pressure from his backbench, excluded many food items. The package, never regressive, was now very clearly progressive. *Fightback II* also provided for a $3 billion injection into public works and accelerated depreciation for business. The welfare and tax benefits were brought forward. These changes were financed by deferring tax cuts for the wealthy and by the sale of Telecom. Blewett commented that 'its fiscal recklessness blurred the distinction between Government and Opposition policies'.[359]

Fightback I had been an exceptional attempt by an Opposition to explain needed reform. It was as rigorous as anything that had come from a party in Opposition. *Fightback II,* although no worse than *One Nation*, was in contrast a sloppy document financed in part by asset sales and wishful thinking. With it the courageous attempt was abandoned and democracy lost out. John Hewson had sworn that he would sooner not be the Prime Minister than to retreat from *Fightback*, but when faced with the prospect of actually not being the Prime Minister he had backed down. Twice on chance meetings with Hewson I had bet him that he would not in fact have the resolve to stick with *Fightback I.* My tactic was an overly cruel one. He was becoming lonely at the top and sympathy might have won us more.

The immediate effect of *Fightback II* was, nevertheless, to halt the Coalition's decline in the opinion polls, but the advantage did not last.

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[359] Neal Blewett, *A Cabinet Diary,* Wakefield Press, 1999, p 237

Keating called the election for 13 March 1993, when the economy was recovering, and won with a swing to the Government. Exit polls indicated two dominant issues, the GST and unemployment. Hewson could have fought upon the latter more important issue. He failed in largest part, however, because of his inability to articulate the values toward which his reforms tended. As Bronwyn Bishop observed on election night, campaigning is about issues of the heart as well as the head. When Keating had referred to Hewson as a 'feral abacus' he had identified his opponent's most serious political weakness. They have not always succeeded, but Dries who had learned their trade in and around the think tanks understood the care that was needed to ensure that their hard heads were not easily portrayed as hard hearts. Hewson did not have that background and he seemed not to appreciate that successful advocacy depends on shared values.

Although the setback was not as great as I feared at the time, it was a turning point from which the dry cause was not wholly to recover. The Dries had cultivated politicians who would run on their agenda and had found a champion who had failed electorally. How this came about became the subject of soul-searching and was to influence the policies of more luke-warm reformers.

Should an Opposition attempt to take the public into its confidence? Douglas had not done so in New Zealand and neither had Hawke but, on the other hand, Thatcher had been frank about her intentions. A democratic principle was involved.

When a Government is unlikely to control both houses, should an Opposition attempt to obtain a mandate that will persuade the upper house to pass policies it had run on? The Senate had not been too respectful of Whitlam's mandate after 1972 nor would it be of Howard's GST and industrial relations mandates. Arguably another democratic principle was involved, but one that could not be enforced. Following the *Fightback* election it became the practice of all parties to hold their policies and particularly their costings until late in the campaign when it is too late for them to be torn apart by honest or dishonest opponents.

The Coalition parties had been justly criticised for past failure to commit to principles, a failure that had allowed vested interests too easily to influence economic policy. When Hewson had developed *Fightback,* some critics, of whom John Stone was the most notable, had predicted that the GST would be misrepresented and therefore could not be sold to the public; but he was not asking the Coalition to return to unprincipled pragmatism. He was complaining that the GST would absorb too much political capital for too little social gain. There is not, and in a democracy can never be, an unlimited supply or either political power or influence. As much of both as politicians have must be nurtured and used selectively. Hindsight tells us that some politicians do this badly, but it is far more difficult to do well than their critics tend to admit.

With that hindsight, Stone seems to have been correct, but had the Coalition won by abandoning what it had professed would it have been an effective Government? Both the union bosses and the captains of protected industries recognise weakness. The more that a Government is seen to succumb to pressure the more pressure it is

subjected to. When Hewson announced the reconsideration of the GST, he faced outlandish demands for GST exemptions, for instance, for desexing dogs and sport.

Peter Walsh did not favour either Keating's Option C or Hewson's GST. His comparison of them is therefore likely to be as objective as any and it is better informed than almost any.

> On any reasonable assessment, Option C's income distributional negatives were greater than the tax component of *Fightback I*, and vastly greater than *Fightback II*. The higher CPI impact in Option C posed greater risks for economic growth, interest rates and a higher de facto capital levy that inflation always imposes on those who hold assets in cash instead of property. In this way both taxes punished those who opted to accumulate cash savings instead of indulging in property speculation. But the BBCT [broad based consumption tax] punished them more. The GST social security compensation measures were more adequate. The BBCT was collected only at retail level, and thus lacked the self-policing multi-stage collection point which all value added taxes have. One collection point simplifies administration, but also facilitates evasion.[360]

Walsh also observed:

> One of the great ironies of the 1993 election is that the Liberal Party was for cheaper food for the workers and higher taxes for the rich. Labor was for dearer food for the workers and lower taxes for the affluent.

How much did loss of one election matter? A once-in-generation chance to benefit the nation had gone forever. The disappointment was particularly acute because Hewson had attempted two things that Dries had advocated. The first was to move on a broad front as had been done in New Zealand. The second had been to pre-announce a comprehensive reformist agenda, rather than just elements of it, and thereby to obtain a comprehensive mandate. That had seemed the honest thing to do and to offer the best chance of achieving the passage of necessary legislation in the Senate. Dries (by many counts but most of all by underestimating both Keating's talent and his cynicism) had misjudged what the political system could deliver. However, recrimination, excessive resort to hindsight and selectively reminding people of where our own foresight proved correct was and remains pointless. The hard fact was that the Dries stuffed up in a manner that had been foreseen, discussed and ultimately misjudged. If true to their mission, they had no option but to pick up the pieces and carry on.

On the positive side, the debate had been considerably advanced. Had not Dries always argued that in the longer-run the argument is everything? It was not, moreover, the first or the last setback in 'the good fight' nor did it mark an end to rapid progress which had already shifted to Victoria.

We were never to learn how closely Hewson would have been able to stick to his program in Government, what deletions would have been necessary and what additions opportune. Nor were we to discover whether the Senate would have felt obliged to implement *Fightback.*

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[360] Peter Walsh, *Confessions of a Failed Finance Minister*, Random House, 1995, p 143

Democracy is a developing art. And, although it has not been much remarked in these terms, *Fightback* was an experiment in democracy. The Hewson Opposition, in search of a mandate for reform, released a warts-and-all policy eighteen months before a poll. In so doing, it placed unprecedented trust in the Australian public. It did not, of course, expect most voters to study its policy, but Hewson, Fischer and Co must have expected the media, the bishops and other conduits for ideas to give *Fightback* a more honest appraisal than it received.

Were the circumstances so exceptional that they contain few lessons? Could anyone other than Keating have diverted attention from the nearly one million unemployed, the current-account and the foreign-debt to direct it to the Opposition? Keating whipped up self-interested resistance to *Fightback* that was based upon misapprehension. For that matter, how many political leaders would have mounted a campaign that relied so heavily upon misapprehension? The experiment did not work that time but the Australian electorate a decade later is resentful of the practice of springing policies upon them only in the closing stages of election campaigns. At some point there must be a limit to how much of that sort of behaviour a democracy can withstand. Fortunately the Australian democracy is particularly robust.

One lesson can be learned. Hewson failed when he failed to communicate *Fightback's* moral basis. Merely by being unusually frank he laid early claim to the moral high ground but he was not then able to defend it. Accustomed to non-judgemental neoclassical economics he avoided visions and values. While not denying that visions and values both provide ready refuges for rogues, people must see the goal and then it has to be approached by means seen to be decent. Voters are not economists but they do care. *Fightback* was defeated by a false moral argument, namely that it prejudiced the poor. The Opposition had, however, reinforced the falsity by concentrating on telling people what was in the policy for them – by assuming that the electorate's motives were more selfish than I believe they are.

Taking account of public opinion, while not becoming subservient to the minorities within it, is the great balancing act of democratic leadership. C.D.Kemp, who was, despite his sons' roles in writing it, a critic of *Fightback,* wrote after the 1993 election defeat:

> I have been shocked by the way so many Liberals have been in such indecent haste to distance themselves from ideas which, only a few weeks ago, they seemed to have a passionate attachment. It is not a pleasant spectacle: it does them and their party no credit.

Even though Hewson failed, and *Fightback* but not *Jobsback* was formally abandoned, it had set a precedent in Australian political development that was to be repeated with more success by Howard in 1998.

When the election was lost, amid the enmity and arcane manoeuvring that had become Liberal Party practice, Hewson retained the Liberal Party leadership. But when he abandoned *Fightback* he abandoned all that he was in politics. Plagued by want of public or party support he was forced to hand over to Alexander Downer. Also plagued by want of public and party support, Downer resigned in favour of John Howard. From this round of Liberal musical chairs, Downer emerged a loser but one

whom, in the words of Liberal Party President, Tony Staley, was blessed with ‘civilised values, dignity and decency’. Here, in Downer, was a player who had been prepared to put the national interest before the temptation to recriminate, destabilise and plot – dryness of a sort.

Chapter 13
Keating

And what are gods that man may not become as they …?
Milton, Paradise Lost, Book 1X

The First Keating Government – Introduction
Time in office had increased the tendency to cynical politicking. Comparison of Peter Walsh's account of his Ministerial experiences as a member of Hawke's Government with Neal Blewett's as a member of Keating's reveals how much so.

Walsh deplores the practice of 'Stunting' – i.e. the production of statements on peripheral issues as substitutes for policy addressing real problems but Blewett wrote:

> All ideals, policies and programs were judged by a single criterion: will they or will they not contribute to re-election? This was the most opportunistic period in the thirteen years of Labor rule.[361]

Blewett clearly appreciated that the Government was misusing authority but he seems to have accepted its misuse, except where his own portfolio was affected.

During 1991 the nation was suffering the 'recession we had to have' with unemployment over 11%. The Hawke Government seemed doomed. Keating bemoaned the want of national leadership in a speech to the National Press Club during which he likened himself to Placido Domingo. Angered, Hawke repudiated a secret 1988 agreement (the 'Kirribilli House' agreement) whereby he had undertaken to pass the Prime Ministership to Keating during the term of the Government elected in 1990. A bitter Keating challenged Hawke in May 1991 losing by 66 votes to 44 and resigning from the ministry.

By the end of the year John Kerin who had been appointed to the Treasury to replace him was stumbling and Keating was conducting a campaign to destabilise Hawke. In November the Hewson Opposition had released its initially popular *Fightback* program. The Government trailed 12 percentage points in the opinion polls and four weeks after the release of *Fightback* Keating challenged Hawke for the second time, this time becoming Prime Minister.

From the backbenches Keating had attacked three significant dry policies, budget balance, Medicare co-payments and Commonwealth/State financial imbalance. From a dry perspective he was off to a bad start.

Keating's 'One Nation'
Keating needed to develop an alternative economic strategy to counter *Fightback*. He released *One Nation* late in February 1992 characterising it as his four-year counter to the Hewson plan. Even the opportunistic Graham Richardson described it as 'full of heroic assumptions'[362] and Blewett's diary entry for 26 February reads in part:

> First there is to be a one-off stimulus to encourage demand through lump sum payments to family allowance recipients, with follow-through to poorer families.

[361] Neal Blewett, *A Cabinet Diary*, Wakefield Press, 1999, p4
[362] Graham Richardson, *Whatever it Takes,* Bantam Books, 1994, p 348

> On infrastructure there are proposals including rail development, circular roads around major cities, new major highways, some refocusing of the Better Cities Program, more for the multi-function polis and a Brisbane-Gold Coast fast-rail transit line. The bulk of these infrastructure programs is cyclical in nature and is linked to the early years of the four-year plan, coinciding with recession and the early years of recovery. There are proposals for a national authority to run the electricity grid, for an open airways policy and for what looks like a Commonwealth take-over bid for further education.
>
> There are schemes for stimulating private investment: a new depreciation schedule that shortens significantly the time to write off major investments and that will be competitive with any regime in the developed world; a pooling of development funds to provide investment resources for people running small businesses; encouragement of private provision of capital for road, rail, ports electricity through tax concessions on bonds so that funds for these purposes could be discounted; and a 10% concession through development allowances for early implementation of major development projects.
>
> The ACTU was given a renewed Accord commitment on wages to ensure that the inflation rate remains at or below the average of our major trading partners. In return, the Government through a staged series of tax cuts, is committed to achieving a new 30% marginal tax rate for most Australians by the end of the four-year period, i.e. a tax-rate equivalent to that offered by Hewson but without a consumption tax. Given that expenditure is concentrated in the early years and falls away as the economy recovers, it is anticipated that the budget will be back in surplus in 1995-96. This however seems overly optimistic; ….

It proved extremely over-optimistic. It was like the irresponsible shopping lists that masqueraded as party policy during the 1960s and 1970s and it proved worse than was appreciated at the time. If the arithmetic in *Fightback* was flawed, the arithmetic of this document was very much more so but it escaped substantial press evaluation. Only the open airways promise afforded Dries comfort.

Peter Walsh was scathing:

> …a firm commitment to fiscal irresponsibility – big increases in public expenditure, two tranches of tax cuts as far ahead as 1996, ultimately costing more than $8 billion a year. All this when the budget deficit was already running at 3.6% of GDP. Some dodgy figuring (ie. inserting whatever rate of economic growth was needed to validate the bottom line) purported to show that the budget would be in surplus by 1995-96. The purpose of this creative accounting was to show that Labor could get the Average Weekly Earnings marginal tax rate down to 30 cents – the same as Fightback – without a GST.

The economy was in recession and fiscal stimulus, although by then somewhat late, was not necessarily inappropriate. The document's great sin was that it was based upon a hugely unlikely forecast of 4% economic growth, an expectation the Government would soon be forced to abandon. *One Nation's* tax cuts could not be financed and although, after passage of the legislation, Keating assured the Press Club that they were written into 'L.A.W. law', they too were ultimately abandoned.

The Superannuation Guarantee Levy

The Commonwealth Government did not fund its employees' superannuation or the old aged pension from accumulated capital. It was in this respect a less responsible financial manager than the States, particularly Queensland. Dries shared a widespread concern about this unfunded liability and, more generally, they worried about declining savings. In 1970 Australians had saved 25% of GDP but by 1983 the savings ratio had fallen to 18% with most of the change accounted for by increased Government consumption. The situation was to get far worse but most Dries even then thought that Australians were relying too heavily on foreign savings. They had applauded when Hawke addressed the public sector's contribution to poor savings by taking the Commonwealth budget into surplus but by the 1991 recession it was again in deficit. The State budgets and the corporate and household sectors also contribute to or subtract from net over-all savings.

When governments provides pensions, health care and unemployment relief, rational people naturally feel less need to save for rainy days. Similarly, state provision of education and housing reduce the need for people to save nest eggs. Dries had urged stricter means and income tests to assess eligibility for each of these benefits and the Hawke Government had moved cautiously toward needs-based welfare.

From July 1992 the Keating Government sought to address inadequate voluntary saving by the household sector with compulsory saving via the Superannuation Guarantee Levy (SGL). Instead of requiring individuals to save, however, it required employers to find the money – as the Hawke Government had done with the Fringe Benefits Tax. Keating thus raised direct employment costs by 3%, or 5% if the relevant pay roll was over $500,000 per annum, an extraordinary policy when unemployment was 10.5%. Unions welcomed the policy because they were offered roles in setting up and managing the superannuation funds.

In the long run, the cost of the Superannuation Guarantee Levy, like nearly all unions' 'hard won gains', would be paid for by the employees themselves. But immediately it was paid by employers who had no option but to reduce activity and/or substitute machinery for people. Thus much of the initial cost of the SGL fell upon those who found themselves out of work because of it. Only later when, in spite of the unions and the Arbitration Commission, the weight of unemployment depressed wages, could the cost be borne by those in work. Moreover, it was not clear to what extent the SGL would result in additional saving rather than merely substitute for existing saving. The subsequent further drop in private saving suggests that the SGL did little for aggregate savings.

The problem Keating tried to address was real. Unfunded superannuation schemes and unfunded pensions are but promises made that the next generation of taxpayers will provide for the current generation in retirement. The SGL was, however, a corporatist deal cooked up by the Government and the ACTU to allow both to grandstand without producing much in the way of real benefits while increasing unemployment. The Government excluded its own budget from the SGL's provisions. The ostensible reason for this, namely, that a Government guarantee is as safe as money in the bank and therefore does not require funding, was irrelevant to both the need to increase savings and the need to reduce the burden upon future tax-payers.

The Demolition of Fightback

Keating employed Treasury to take *Fightback* apart and, of course, flaws were discovered. He described Treasury as putting an Exocet missile through it.[363] In the context of the contest between political parties Treasury help for the Government was unfair but all Governments use it. Indeed the imbalance of resources between Government and Opposition is inimical to perfect democracy. Our democracy is, however, more than good enough to have changed our Governments at times that with hindsight seem more-or-less right.

The challenge to *Fightback's* arithmetic revealed about a $3 billion discrepancy. That was a large figure but not a sufficient one to reject the package. The Government argued that because of the offsets needed to make the GST palatable the Liberal tax cuts were not affordable, but if *One Nation's* economic growth forecast were to eventuate, then they would have been more than affordable. By the standards of Oppositions, the program had been fairly well costed and much better so than *One Nation*.

When Hawke resigned from the Parliament, a by-election was required in Wills. During this campaign Keating backed away from his commitment to free trade maintaining by-elections' record of confounding sound public policy. He dubbed Hewson 'Captain Zero' the sea-green incorruptible who put purity of policy before public interest and it took Ford and Toyota no time to rediscover their demands for protection. It bears repeating that General Motors and Mitsubishi did not join this push.

The computer industry suffered from protection of other industries and, with IAC support, the Fraser Government had protected it by bounty. With the sharp reduction of this disadvantage achieved by the Hawke Governments, the IC now recommended that the bounty be discontinued but in the final months before the 1993 election Keating extended it to 2000, emphasising his difference from the Opposition.

The Government, worried about the loss of four sugar seats in Queensland, in February 1993, just before the election, reversed its decision to phase out the sugar tariff, promising that it would remain at $55 per tonne for three years. It promised $20 million to facilitate restructuring and some deregulation. The Opposition promptly promised only two years moratorium on tariff reduction and more deregulation with more money for restructuring. Despite this bribery by Labor, the swing against Labor was 3.8% in the sugar seats compared with 1.2% in the rest of Queensland.[364] Pandering to vested interests can, at least sometimes, be poor politics.

In June, Keating sought to revive his reformist credentials by proposing two policy initiatives. One tried to provide a legal basis for pay television but it did nothing substantial to improve the choice available to Australian viewers. Nothing intimidates federal politicians more than the influence of the media barons and media policy remains today one of the few dry recommendations from the beginning of the 1980s that has not yet been addressed. The Coalition gave Keating's measures a difficult

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[363] Neal Blewett, *A Cabinet Diary*, Wakefield Press, 1999, p70

[364] Peter Walsh, *Confessions of a failed Finance Minister*, Random House, 1995, p 253

passage in the Senate, but showed itself to be no more committed to economic freedom in the media than was the Government.

The other Keating initiative provided for the merger and sale of Qantas and Australian airlines. It is significant that most of the Cabinet seemed to have accepted that there was still electoral advantage in demonstrating at least a little reforming zeal.[365]

In July, unemployment at levels not seen since the 1930s and a huge blowout in the budget deficit sapped Government hope. Blewett claims to have told Cabinet that with the election still nine months away the Government's immediate danger was of losing credibility as the Kirner Government in Victoria had lost it. When that happened, he thought there could be no recovery.[366] That Keating managed to keep public attention on the credibility of *Fightback* was an extraordinary if unworthy achievement.

The expectation of big budget deficits in coming years could not be reconciled with the promised tax cuts and the final seven months to the election began with the Government's budget badly received. The Blewett diaries had this to say:

> [Keating and Dawkins] have made imprecise commitments to further taxes in order to camouflage the deficit in mid term, a policy dreamed up by the two of them without formal or clear reference to the revenue committee or the Cabinet. Keating stressed that the legislation introduced for the new taxes would also include the mid-term income tax cuts, and that would help minimise the inevitable flak.

Elected in October of the previous year (1991) Kennett's break-neck reforms to restore Victoria's fiscal respectability and competitiveness also featured largely in Labor political rhetoric but their effects on the outcome of the Federal poll are hard to assess. Victorians joined big protest rallies and suffered strikes. These were not welcomed by the Keating Government, which worked with the ACTU to try to contain them.

In November, Keating announced that Labor would not block the passage of the GST in the Senate if the Coalition won the election. His successful intention was to make the coming poll a referendum on the GST.

During the campaign Keating twice resurrected the 1989 promise that no pensioner would pay tax. It remained unaffordable. Peter Walsh rang John Dawkins who was unaware of the commitment. Five days after the election, presumably without Cabinet consultation, Dawkins made a public statement repudiating it.[367]

The 1993 Election

Keating called the election for the Ides of March. Against all the apparent odds he won. Hewson and his small band of serious followers had been brave, Sir Humphry might have said 'courageous'. They are given too little credit for what they attempted and in fact what they achieved. The *Fightback* policies lived on long after the political demise of most of the document's authors.

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[365] Neal Blewett, *A Cabinet Diary*, Wakefield Press, 1999, pp 136 and following
[366] ibid, p 177
[367] Peter Walsh, personal communication.

Neal Blewett's record of a Cabinet discussion prior to the election has the following revealing line: 'Dawkins agreed that Hewson was stuffed by the attitude of the business community'.[368]

Had Hewson won with *Fightback I,* implementation would have been marred by the unforeseen and there would have been occasions when he would have been accused reasonably of back-pedalling and of breaking undertakings. The waters would have been muddied but, helped by the fact that the Hawke Government's reforms were beginning to have beneficial effect, I believe that a Coalition Government would have been seen to have substantially implemented its package. Political campaigning in Australia would have been changed by the changed perception among politicians that the public could be trusted, even in the absence of an obvious crisis, to vote for reform. That was not to be. The loss to economic liberalism and the dry cause generally was, of course, immense, but the damage ultimately proved less than I at the time anticipated.

Whether Labor could have mounted an equally successful campaign by concentrating on *Fightback's* health or industrial relations reforms will never be known.

What I wrote shortly before the election is a better indication of how I felt than is memory that is coloured by the knowledge that the dry agenda continued to gain some ground albeit at a much slower pace.

> The public knows that we are in danger of making a horrible mess of our economy, but far from trusting the public, both political parties have 'gone upon every high mountain and under every green tree, and there hath played the harlot.' The words are Jeremiah's but they fit the times only too well as our political leaders sell principle after principle to interest after interest in a bid to govern a nation they seem determined to render ungovernable. Let us hope that our fate is less traumatic than that of which Jeremiah so presciently warned Israel!

In the years immediately following, that proved somewhat 'over the top', if less so when petty opportunism came again to dominate politics during 2001. That one is denied the advantage of convenient memory lapses is a drawback of having a regular newspaper column.

Australia 2010

The Business Council of Australia's manifesto, *Australia 2010: Creating the Future Australia,* published just two days before the election reflected the changed *Zeitgeist*.

When the BCA was formed, I had written that the last thing Australia needed was yet another powerful lobby making demands that could be met only at the expense of other parts of the economy. In its early years the BCA seemed to fulfil my worst fears, but at this point its attitudes to protection, labour market regulation and tax distortions reflected a creditable national perspective.

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[368] Neal Blewett, *A Cabinet Diary*, Wakefield Press, 1999, p194

With *Australia 2010,* the Chief Executive Officers of Australia's 50 largest companies endorsed policies which a mere ten years before, many of them would have believed unthinkable. *Inter alia* they stated the following dry aims:

- ...abandoning reforms before they have yielded results only creates new problems.
- A century ago Australians enjoyed the highest standard of living in the world. In 1970 Australia was 10th in the national league table – we are now 18th.
- ...there is no feasible alternative to transforming Australia into an outward-looking internationally competitive economy...
- The Accord slowed the pace of labour market reform… [Australia should] create a system of individual and collective agreements.... make union membership a matter of choice rather than one of legislated monopoly.
- artificial acceleration of growth does not produce long term results … Inflation robs … inflexibility in fiscal policy and the Accord-based wage agreements left monetary policy as the only tool.... The legacy has been three years of recession...
- Abolish the existing indirect tax system and substitute a broad-based consumption tax.
- Change must be executed swiftly.

It has to be asked how those motor industry CEOs, who continued to press for protection had squared their behaviour with this document's call for an 'outward-looking internationally competitive economy'. They were, however, obliged to reflect their American or Japanese employers' interests and the Dries' quarrel is with Australian Governments.

It had been recognised that the unreasonable costs generated by the large public-sector monopolies in particular were as damaging to the TCF and motor industries as the high prices of clothing and motor cars were to other industries. No country had, however, managed to do everything at once. A large part of the case for proceeding with tariff and financial reform first had been based on experience elsewhere. Once an economy was opened, the need to be internationally competitive then encouraged reform of its internal economy. It had been expected (hoped) that labour market reform, the marketisation and privatisation of Government business enterprises and reform of the tax system would follow the open economy.

The launch of *Australia 2010* approximately marked the high-point of dry influence in business circles. I recall that Professor Helen Hughes, never one to miss an opportunity to tease, sat down to applause after observing at its launch, 'If your words were currency, gentlemen, we would have fixed unemployment long ago'! The meeting became a catalogue of well-chosen 'if onlys'.

William Donaldson, Chairman of the New York Stock Exchange:

> If only you succeed in making your companies more attractive to foreign investors – by, for example, holding down labour costs, becoming more efficient and freeing them of unnecessary regulations.

John Ralph, Chief Executive of CRA:

> We can rejoin the top ten by 2010, if only something is done about investment per head of population that has fallen to levels not seen since the Great Depression; if

> only the Government had not passed up the best opportunity it is likely to get to reform the nation's employee relations system; if only the way that the High Court Mabo decision had been handled had not imposed unnecessary costs on the mining sector; and if only the quality of investment were better.

Ted Evans, Secretary to the Federal Treasury, said that investment would be of higher quality, if only there were no distortions in the environment in which those investments were made – that is, if only low inflation were seen as a permanent feature of our economic landscape; if only the tax system were relatively neutral as between investments; if only in the medium-term Government deficits reduced their call on national savings; and if only Governments did not introduce further uncertainty into economic decision-making.

Don Mercer, Chief Executive Officer of the ANZ Banking Group declared:

> The potential is enormous: sadly the prospects are not;
> The Government's budget deficit of 1% of GDP by 1996/97 will not be sufficient';
> This economy needs a VAT approach to taxation; and
> Adequate labour market reform is not part of the present policy agenda.

I thought Mercer's speech a particularly courageous evaluation of the public policy of a Government that has lost its way. If anyone present strongly disagreed with it, then he was not game to stand up. Except for two questions that received little sympathy, no businessman suggested that economic reform was other than too slow.

Keating was however chained to the trade union movement. What is more, he had won the leadership of his party by ruling out reform of the State-Federal fiscal imbalance and won the election by ruling out reform of the tax base. Having, as Treasurer, earned much credit for himself by starting to open up the economy and perhaps even more for changing public opinion, he now, as Prime Minister, found his own political tactics standing between him and further reform.

He was, nevertheless, to achieve one hugely important 'big picture' reform.

National Competition Policy

In April 1995 the States and Commonwealth reached agreement upon a competition reform package of potentially momentous significance. Arguably it owed its origins to the Hawke/Greiner co-operation and to publicised studies[369] of the causes of Australia's lack of competitiveness, but it owed its fruition to Keating and its form to the Hilmer Report of 1993.

Trade practices laws had long proscribed anti-competitive conduct among private firms but the *Trade Practices Act* (TPA) did not effectively address Government monopolies, regulated professions, trade unions, agricultural handling and marketing authorities or regulated industries such as shipping and airlines. I had once made a parliamentary speech noting that it concentrated on that part of the economy least in

[369] Such as Wolfgang Kasper, 'Advancing into the 21st Century: Visions and Challenges Facing the Downunder Economy', *Australian Economic Review* (Dec.) 1992, pp 27-40.

need of greater competition. I recommended that its reach be extended to the statutory monopolies such as Telecom and the Wheat Board but I did not follow the idea up and Governments take no notice of the things backbenchers say in parliaments, so long as these do not cause political problems. Except for Sections 45D and 45E proscribing secondary boycotts, dry politicians and the public-interest think tanks had had little to say about trade practices law. It at least was intended to make markets work better and I did not wish, by criticising it, to lend credibility to the oft-repeated slander that Dries believed markets were perfect. In short, despite my speech, I (and I think others) had not really appreciated the potential of better-directed anti-trust law.

In 1985 Professor Fred Hilmer had published *When the Luck Runs Out*, a small rather polemical book that asked why Australians, who were so good at sport, arts etc, were so unproductive. It proved influential. Eight years later the Hilmer Committee's report, *National Competition Policy*, addressed the monopolies and instances of price fixing that were excluded from the reach of trade practices law as it then was – the professions, electricity authorities, statutory marketing authorities, railways etc. Most of these were the responsibility of State Governments. The Report observed:

> The greatest impediments to enhanced competition in many key sectors of the economy are the restrictions imposed through Government regulation or Government ownership.[370]

The argument and examples could be traced back to *Australia at the Crossroads* published in 1980 that had so influenced the Dries on Fraser's backbench, and no doubt further still. Competition Policy's development was a prime example of the cumulative effect, first of quiet nagging and second of the development of the political means to address even the best known problems.

The 1990s had already seen progress on reforms including the National Rail Corporation, road transport regulation, the Corporations Law, the mutual recognition of product standards and occupational licensing, and the regulation of non-bank financial institutions when Keating raised what became National Competition Policy with the Premiers at the Council of Australian Governments (CoAG).[371] He, the Premiers and Chief Ministers agreed to adopt a package that:

- Extended the reach of the parts of the *Trade Practices Act* limiting anti-competitive conduct to virtually all public and private sector businesses;
- Provided for reform packages guaranteeing access to electricity, gas, water and transport infrastructure, all sectors where there is significant natural monopoly;
- Undertook to review new and existing laws that restricted competition; and
- Ensured 'competitive neutrality' between Government and private businesses.[372]

Despite the omission of trade unions, employers' organisations and industrial law generally, this was a momentous step forward. The reforms were structural and would produce cumulative benefits provided future Governments did not reverse them.

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[370] *National Competition Policy*, AGPS, 1993, p xxix
[371] ibid, pp xvii, xviii
[372] National Competition Council, *National Competition Policy: Some Impacts on Society and the economy*, January 1999

The Commonwealth carried the *Competition Policy Reform Act* extending the coverage of the *Trade Practices Act* to its own and unincorporated business enterprises and establishing a regime for access to significant infrastructure. The States passed similar laws. The Australian Competition and Consumer Commission (ACCC) policed the much widened competition policy and the National Competition Council (NCC) provided on-the-record advice.

The CoAG agreement provided a mechanism for its own policing. Section 96 of the Constitution allows the Commonwealth to 'grant financial assistance to any State on such terms and conditions as the Parliament thinks fit'. The Commonwealth agreed to make specific purpose payments (S96 grants) to the States that were conditional upon their meeting agreed micro-economic reforms. The NCC filled in the detail and advised the Commonwealth when to withhold the agreed grants in cases of non-performance. This encouraged or forced, as the case may be, the States to undertake politically difficult reforms and it allowed them to tell their constituents that they must meet deadlines to qualify for the Commonwealth money.

National competition policy has been inimical to privilege, and reforms to the rules governing access to water, gas and electricity and legal services have all been contested by the relevant vested interests. The policy has been blamed for 'social dislocation' and 'environmental damage'. Claims of net environmental damage are easily dismissed. Competition policy by providing for tradeable property rights has discouraged waste of resources, from water and electricity to human effort.

Some communities do however depend upon inefficiencies – for instance, the unnecessary staffing and inappropriate location of facilities in rail, banking, telecommunications and grain handling, and the consumer subsidies paid to dairy farmers, doctors and lawyers. Remove the monopoly or anti-competitive regulation and then, to compete, the sector must locate, staff and price to satisfy consumers' interests. So long as the greater community is prepared to accept living standards that are lower than could otherwise be achieved, these endangered communities can be maintained for the foreseeable future. The argument that communities should be preserved at whatever cost is put at its most extreme in the case European agriculture. Such communities are maintained, however, by diseconomies that prejudice other communities. About three years after the introduction of National Competition Policy a Senate select committee was to express concern that it affected the ability of Governments to govern. It did not add, 'in ways that they would prefer the public not to understand' but, since Governments' abilities to make laws over-riding competition policy were not affected, that was what was meant.

A dramatic event, the Longford fire in ESSO's natural gas plant on which the State had depended, demonstrated the advantages of access rules that allowed Victorians to receive gas from NSW during the period it lost access to the Bass Strait gas-field. More often, however, Competition Policy's gains, although permanent and incremental, have been small on any day and of little interest to the media. Water reform may serve as an example of what was done but, in truth, beyond the broadest principles, each industry or profession was peculiar.

Water reforms affected:

- Pricing – paying for water actually used;
- Rights/entitlements – clarifying private and environmental water rights;
- Trading – the buying and selling of these rights;
- Infrastructure – the justification of new investment on economic and environmental grounds; and
- Service provision – a focus on customer requirements.[373]

Business Review Weekly described water trading:

> Each week, Goulburn-Murray Water produces the 'Water Exchange', a computer printout that gives details of volumes and asking prices for water available for temporary trading. Goulburn-Murray matches buyers and sellers, the sends a schedule of sales to all concerned. Permanent water rights transactions are handled by brokers.
>
> Recent prices have ranged from $850 to $1100 per megalitre. Four years ago, when trading began, the average price was $300 per megalitre. As market forces have gradually directed water to higher value crops the value of the resource has increased.[374]

BRW reported that by January 2000 the water market in northern Victoria had an annual turnover of $31 million. Each year, one per cent of water entitlements was passing to new owners as people such as graziers sell their water rights to horticulturists and other 'high value producers' and use the funds to move out of grazing. Locally the horticultural industry was growing by 10-15% annually and unemployment had fallen from 13.5% to 4.2%. Urban water charges were based more on the amount of water used and the accountability of water authorities was enhanced. Water waste was much reduced to benefit high value consumption and the river systems.

Competition policy has benefited consumers and contributed to the fast economic growth of the latter part of the nineties. By 1999 the National Competition Council was able to report that electricity prices on the Eastern Seaboard were down by 23% to 30%, industrial gas prices in WA were down by 50%, Perth-Melbourne rail freights were down 40%, conveyancing fees in NSW had fallen 17%, air traffic services were 40% cheaper and so on. Such large cost reductions naturally made substantial contributions to Australia's competitiveness. It was much the greatest achievement of the Keating Governments. However, revealing as it does the extent of Government favour, the NCC is denigrated not only by the interests but also by politicians. Like the Tariff Board, and for that matter the courts long ago, the NCC will have to fight for its independence. It needs and merits champions like Kelly, Melville and Rattigan.

Inflation

Increased budget deficits and increased money supplies can stimulate stagnant economies. However, if these 'stimuli' are not offset at other times by budget surpluses and tight money, mounting public debt and inflation will more than undo the gains. The economic trick is to time stimuli for the early stages of recessions and restraint for the early stages of booms but Macro-economics is not an exact science

[373] National Competition Council press release, 15 June 2000
[374] *Business Review Weekly*, 21 January 2000, p 31.

and turning points that are obvious with hindsight are not always evident at the time. The Australian Treasury tends to be cautious, advising Governments not to try to second-guess the business cycle but to maintain balanced budgets and non-inflationary money supplies except in extreme circumstances.

Politicians, on the other hand, have had little difficulty convincing themselves that the future, when they may not be in office, will be rosier than the present. The political trick is to time the stimuli for the early stages of elections and to postpone the restraint indefinitely.

The big budget surpluses of 1988 and 1989 had been hard won and in winning them much wasteful expenditure had been eliminated. Keating had justly taken pride in them. However, from the time that he resigned from the Hawke Cabinet he began advocating lax fiscal and monetary policy. The electoral advantage of what he proposed was obvious: the economic advantage dubious.

By 1991 the economy was in fairly deep recession with 11% unemployment. During May zero inflation was reported for the March quarter and 1.7% for the year to March 1991. Having for two years denied the existence of recession (the 'R word'), with breathtaking chutzpah, Keating described the economic circumstances as 'the recession we had to have'. With a measure of justice he claimed that the good inflation figure was the result of past policy. The micro-economic reforms, especially tariff reduction, had contributed to lower production costs improving the inflation/unemployment trade-off but unemployment remained serious.

If the fiscal discipline of earlier years had been maintained, monetary policy would not have needed to be as tight as it was. In fact, it was probably tighter than intended. Bernie Fraser, who was then the Governor of the Reserve Bank, was later to say that the Bank had underestimated the effects of high real interest rates on business. People who are too ready to criticise Thatcher for the unemployment caused by monetary policy that was too tight in appreciably more difficult circumstances might note the similar error in Australia. Moreover, they should count the benefits in both cases, particularly that of falling unemployment, attributable to the conduct of later policy in a relatively inflation-free environment. Finally, we all should admit that falling inflation was at the time a worldwide phenomenon. Stagflation did seem to have become an evil of the past.

Recurrent current account deficits continued to add to foreign liabilities. In Whitlam's time foreign liabilities had been 3.1% of the then GDP. By 1994 they were 40% of the GDP of that time.

The Budgets

The Keating Governments – until their last year, when there was a marginal improvement – continued the budgetary deterioration begun in 1990-91. New initiatives, such as the Child Care Cash Rebate, the Seniors' Health Card and subsidies for sport and the arts were targeted to vociferous lobbies and tended to be regressive.

Influenced by the recession, 1992-93 saw a deficit of $14.5 billion. The next budget forecast an underlying deficit (that is, net of asset sales, dividends and capital

repayments) of $16 billion. About half of this carried forward to future budgets. It was predicated on annual growth of 2.75%, which some thought optimistic, but in the event growth was over 4%. It seems now that that improvement, which was to last for the rest of the 1990s, was attributable not only to cyclical factors but also to the productivity-enhancing reforms of the Hawke years. Unemployment in 1993-94 remained at 10%, but then the labour market had not been reformed.

Despite the nation coming out of the recession, the 9 Government budgets (6 State, 2 territory and one Commonwealth) together produced public-sector dissaving that exceeded private-sector saving. The main cause of the savings deficit was increased public-sector consumption not matched by revenue and the main culprit was the Commonwealth. Net Commonwealth assistance to the States had fallen from 9.5% of GDP in 1982-83 to 7.4%. In contrast the Commonwealth had increased its own-purpose outlays from 17.2% of GDP to 19.5%. The Commonwealth was to use 64% of its new borrowings to finance current outlays – and that in the third year of an economic recovery! Keating, who had once been acclaimed the world's best Treasurer, was an unusually profligate Prime Minister.

In a mere four years, a surplus of 2.2% of GDP had become a deficit of 4% and Commonwealth spending had increased by 16.5% in real terms. The States had made savings, but the Commonwealth's own purpose outlays were two percentage points of GDP higher than when Labor assumed office in 1982-83. Just reducing the Federal Government's own-purpose expenditure to the same share of GDP as it had been in 1989-90 would have eliminated $13 billion of the $16 billion structural deficit. For the second consecutive year, the IPA's annual budget round up awarded the Commonwealth the lemon for the most irresponsible of the nine budgets.[375]

The *One Nation* estimate of a budget surplus by 1995-96 was way off track. Public debt interest, that is, the interest bill for past deficits, was estimated to be over $10 billion by 1997-98.[376] Budgetary discipline under Keating was approximately as deficient is it had been with Fraser's last budget. One must presume to provide a rationale for breaking the L.A.W. tax promises, the Government commissioned Vince Fitzgerald to report on deficient saving and its consequences. His Report usefully discussed the causes and consequences of poor saving. Inconsistently, it quoted the IPA's recommendations for savings in State budgets but not its recommendations for savings the Commonwealth's own budget.[377]

The Keating Governments, nevertheless, attempted some fiscal reforms. When John Dawkins had been Treasurer, he attempted to remove the tax concession on accumulated long-service leave but, under pressure from the ACTU, his proposals were watered down. He also attempted to increased taxes on wine to bring them more into line with other alcohol taxes but this measure was partially defeated in the Senate by Democrats with seats to protect in the South Australian Lower House and an equally hypocritical Coalition smarting from its recent defeat.

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[375] Mike Nahan, '1994 Budget Awards and Assessment'*, IPA Backgrounder,* IPA, 1995.
[376] Peter Walsh, *Confessions of a failed Finance Minister*, 1995, Random House, p 258
[377] I'd take one small bet that they appeared in early drafts.

As people live longer the dependency of old people upon the earnings of a smaller proportion of working-age population becomes less manageable. Even if expectations of more comfortable retirements do not rise, unless productivity gains offset the declining proportion of the population that is producing, then the alternatives are limited to reducing pensions and benefits or restricting eligibility for them. When in a budget context the Government said that the pensionable age for women would be lifted to the same age as it is for men – some day – it raised an issue that will one day have to be faced. That day is not as close in Australia with its much younger population as it is in Europe and Japan, but the sooner it is faced the less painful the necessary adjustments will be.

The 1994 budget, Ralph Willis's first, produced a deficit of $11.62 billion and the 1995 budget one of $5.1 billion. The Government had, however, tried to portray the latter as being in marginal surplus by, among other things that were later to be questioned, adding in asset sales of $5.35 billion. The privatisations were welcomed by Dries but for reasons other than budget balance.

Medicare Co-payments

Since Whitlam and his then Health Minister, Bill Hayden, 'free' medical and hospital care irrespective of income has been an icon-status policy for sections of the Labor Party. Although the consequent waste of health-care resources must run to a billion dollars or more annually, dry opposition to free-to-patient services had been based less on over-servicing and high transaction costs, of which there were no adequate measures, than upon the inefficiency of the system in assisting the poor. Most of the benefit went to those members of the middle-class who chose not to insure. Kerin's 1991 budget had provided for co-payments, that is, a portion of a medical bill paid by the patient. During his period on the backbench establishing his leadership credentials, Keating had attacked these[378] and after becoming Prime Minister abolished them in spite of the protests of his Treasurer, Ralph Willis.[379] Co-payments paid by rich and poor alike may not the best way to reform Medicare, but they did begin to address a serious inefficiency.

Neal Blewett, who had been Health Minister in the Hawke Governments, attributed much of the difficulty in arriving at satisfactory policy to the fact that the health lobbies and vested interests were far more powerful than any in his then current portfolio area, social security.[380] Most Dries would agree with him.

Industrial Relations

Early in March, Industrial Relations Minister Peter Cook brought a submission to Cabinet seeking freedom for enterprise bargaining with appeals to the Industrial Relations Commission under a fairness test. Keating and several other Cabinet members opposed him on grounds that included the possibility of a wages break out causing unemployment and inflation, and the inadvisability of playing into Opposition

[378] Neal Blewett, *A Cabinet Diary*, Wakefield Press, 1999, p 12
[379] ibid, pp 38-40
[380] ibid, p 91

hands. The issue was not resolved then and Cook was asked to have further discussion with the ACTU.[381]

In July, however, Cabinet agreed to work-place bargaining. The work-place agreements were to be certified and minimal awards were to continue. This did not give the individual employee the freedom sought by the Coalition but, at face value, it was a step toward economic freedom. Complex arrangements to reflect productivity gains in public sector wages were also approved. Labour market reform, nevertheless, remained substantially beyond Keating's reach, vetoed by the ACTU.

In April 1993, immediately after the *Fightback* election, he had told a meeting of the Institute of Company Directors that control over wage setting would be taken from the Industrial Commission. Nevertheless, such was the influence of the ACTU that by September he was attempting even to nullify sections 45D and 45E of the Trade Practices Act. The Government introduced legislation to allow unions also to impose black bans for three days, then requiring employers to seek redress before the Industrial Relations Commission rather than the civil courts; restrict work-place agreements to unions; and impose unfair dismissal legislation.[382] Keating's turn around again vindicated Professor Hancock's observation that it was 'a mistaken view of a pluralist society that every subject is equally dominated by the might of the state and its arms of enforcement'. Where its vital interests were concerned, the ACTU remained a centre of power above the law about which this Prime Minister dared do little.

The Mabo High Court Decision

The citizens of the Torres Strait Islands were Melanesians long accustomed to cultivation. They were not nomads and it would not have occurred to them that they did not possess title to their land that was approximately as comprehensive as freehold. However, their titles had been blatantly disregarded since the 1930s and further thrown into doubt during the 1987 negotiations with PNG over the border with Queensland. It would have been singularly unjust to deprive them of ownership although it seemed they had never possessed it in formal law.[383] Eddie Mabo, of Murray Island in the Torres Strait, mounted a case that went to the High Court to establish his title. The Court did more and less. It found that he, other Torres Strait Islanders and Aborigines throughout the Commonwealth possessed a 'native title' akin to that granted in the Northern Territory that was inferior to freehold in that it could not be sold or leased. Mr Mabo deserved better and the economy deserved better.

Although some individual Dries were opposed to Aboriginal land rights themselves, most opposed only the unworkable title that the Court had dreamed up with apparent disregard for its multi-billion dollar cost. This was wealth that could have been employed to benefit Aborigines.

The native title was an unusual form of property that, as the Court euphemistically put it, depended on 'biological descent' – less euphemistically, on race. Not only Dries

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[381] Neal Blewett, *A Cabinet Diary*, Wakefield Press, 1999, pp 70 -73
[382] David Barnett, *John Howard*, Viking Press, 1997 p 627
[383] David Barnett, *John Howard*, Viking Press, 1997, p 422

saw the court ruling as a dangerous precedent. Dries, who were accustomed to defending private property against the Crown, were faced with at least an irony. Native title was sometimes claimed by such small groups that it became a form of privatisation, albeit of a title with few of the important rights of freehold.

The immediate practical objection to the decision was that it left existing and intended investments in a state of great uncertainty. Keating attempted to address this with the *Native Title Act 1993.* It failed and the issue had to be revisited.

Micro-economic reform

With the very important exception of competition policy, the Keating Governments did not show the Hawke Governments' willingness to do battle with vested interests. Nevertheless, some gains were made. Agriculture Minister Simon Crean gained Cabinet approval to reduce dairy protection to 10% by 2000. This was less robust than the Industry Commission or the Coalition undertaking to reduce tariffs to zero and Blewett tells us it passed Cabinet almost without dissent.

Telecom and the OTC[384] were merged and the loss-making Aussat was privatised to form part of Optus's package. The Government licensed two new mobile phone carriers, Optus and Vodafone.[385]

Aviation did not fare as well. In 1992, Qantas had taken over Australian Airlines (TAA), agreement had been reached with New Zealand for a single trans-Tasman aviation market and Ansett had been permitted to enter the international market. Keating's *One Nation* statement had called for integration of the domestic and international aviation markets. Dries therefore anticipated 'open skies' but their optimism was misplaced. In 1994 Keating unilaterally repudiated the deal with New Zealand, and Australia still does not enjoy an aviation policy that automatically gives landing rights to foreign carriers or permits them to carry long-haul domestic traffic such as between Perth and the Eastern seaboard.

With the rise of noisy, often Government financed, environmental and aboriginal land rights activists, the mining, pastoral and agricultural industries became concerned about the security of their tenures. They claimed that insecurity was affecting investment, as surely perceived insecurity would, but the people responsible for adjudicating and administering native title claims contended that their fears were more than was warranted. There is no adequate measure of perceived insecurity or investment that is not made, but the more-readily-calculated costs caused by the delays of the native title adjudication process itself certainly became substantial.

Shrill voices contended that timber cutters, farmers, miners and pastoralists did not have property rights that had adverse environmental consequences. These opposed compensation for the loss of what they contended were only presumed rights. Against this background clashes between environment minister Ros Kelly and resources minister Alan Griffiths became features of the First Keating Government. To get resource security legislation through the Senate, Griffiths struck a deal with the

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[384] OTC had monopoly rights to overseas telecommunication services

[385] Productivity Commission, *Telecommunications Competition Regulation, Draft Report,* 2001, p.A7

Opposition, however, opposed by Kelly, he lost it in the Caucus. He and Kelly, however, agreed to ban imports of tropical timbers from countries that had failed to establish sustainable forest managements. The injury that this measure would do to the economies of Third World people may have been considered but did not warrant mention in the Blewett diaries.

Resource security again became an issue in 1995. The then Resources Minister, David Beddall, endeavoured to resolve the ongoing dispute between conservationists and loggers by designating licensed areas for logging. Although loggers and greenies were bound to disagree upon the extent of the designated areas, this was the conventional and sensible approach. Conservation Minister John Faulkner, however, then 'saved' 1300 'compartments' which had obviously been chosen in great haste because they included areas that had been clear felled. That action had the unintended consequence of the parliament building being surrounded by a coalition of unionists, mill owners, contractors, owner drivers, a Premier and Deputy Premier and hundreds of very large log trucks and jinkers. That display of ire had the intended consequence of initiating negotiations with the States to establish clear but limited logging rights.

The Howard Government completed this sensible administrative process, which established encompassing principles by open debate, employed as much hard science as possible, allowed losses and gains traded to achieve most at least cost to the other party, and allowed compromises that are in their nature political. It ultimately produced the Regional Forest Agreements (RFAs) to which, irrespective of political colour, all State Governments signed off. To the extent that both sides complied, the outcome would have been a triumph for democracy, common sense and civility.

The RFAs broke down only in Western Australia where, to appease conservationists who had resorted to damaging property, trespass and political threat, the Court Government welshed. Forests may be fragile but they are no more so than the civil order that depends upon people in authority keeping their word. The Federal Government was understandably angry.

In 1991 Keating also proposed the widening of the IAC's brief to allow it to play a more positive role, rebadging it the Industry Commission, shifting it to Melbourne and appointing a businessman to chair it. Dries' knee-jerk reaction to almost any proposal to change the IAC tended to be 'hands off our Industry Commission' – much as the New-Class Left says 'hands off our ABC'. The businessman chairman was not appointed and the Industry Commission remained highly effective. Dries too suffer some paranoia.

With the election safely behind him, Keating used the 1993 Governor General's Speech summoning Parliament to undertake to continue the tariff reduction policy. The Uruguay Round, which formed the World Trade Organisation (WTO) with wider powers than the GATT, was completed in that year. Despite falling short of its goals, the Round had greatly widened the scope of rules to facilitate trade. As well as further significant reduction of the barriers to trade in industrial and resource-based products, agreements were reached for agricultural products, textiles and clothing, services and intellectual property. It outlawed or restricted several non-tariff barriers such as

voluntary export restraints and misuse of quarantine.[386] The US was, however, losing its commitment to world-wide freer trade shifting its emphasis to bilateral and regional agreements such as the North American Free Trade Agreement. It was to discard it almost entirely in Seattle in 1999.

The May 1995-96 budget provided for the complete privatisation of the Commonwealth Bank[387]

Sovereignty

A tendency has developed to refer to non-Government organisations (NGOs) as 'civil society' and to applaud their ability in partnership with Government to make enforceable rules. This misapplies the idea of civil society, which concerns the internal institutions that regulate human interaction in contrast to state-enforced rules.

During 1994 this verbal passage of arms took place in a Senate Estimates Committee.

> Senator Rod Kemp: 'I take it [you do not agree with provisions] for a parliamentary vote to ratify a treaty'.
>
> Senator Gareth Evans: 'No way, Jose'.
>
> Senator Kemp: 'That is what we thought. We could not have the people involved at all in this?'
>
> Senator Evans: 'Dead Right'.

The Hawke and Keating Governments ceded powers over the environment, land management, immigration, the treatment of children and more to the United Nations, other supra-national bodies and NGOs, taking the authority from Australian parliaments.

Relying on the external affairs power of the Constitution, all Federal Governments had blithely signed treaties – there are over 900 of them – and then used these 'international obligations' selectively, to get around the Constitution. Since 1983 Labor had, however, made a welter of the practice. The signing of an International Labour Organisation convention, without so much as a press release, immediately prior to the 1993 election that it expected to lose, had been a particularly egregious example.

The tendency for Canberra Governments to get their way in domestic matters by this means not only showed scant respect for Australian voters but also for established Australian procedures. Some treaties allow Australian citizens to appeal against Australian law to the United Nations Committee on Human Rights, the UN Committee on the Elimination of Racial Discrimination and the UN Committee Against Torture. When the Australian High Court, in the Teoh Case, ruled that people affected by Government decisions had a legitimate expectation that the Government would consider a relevant treaty that it had ratified, even if parliament had not

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[386] Snape, Gropp and Luttrell, *Australian Trade Policy 1965-1997*, Allen & Unwin, 1998, pp. 370 - 377

[387] David Barnett, *John Howard*, Viking Press, 1997, p 680

implemented them in Australian law the Keating Government faced difficulties of its own making.

Even if the Government treaty making had been acceptable in principle, the particular foreign tribunals to which we were deferring sovereignty were of such low quality that they were poor repositories of our trust. Membership of the ILO and UN Conventions includes representatives of nations whose human rights records are extremely poor and the committees' procedures employed few of the safeguards of objectivity, such the rights of interested parties to be heard and cross examine, that we take for granted.

Making commendable use of the opportunities afforded Members of Parliament, Senator Rod Kemp, who had once run the IPA, conducted a sustained campaign to inform Australians of the Government's misuse of its power to enter foreign treaties.

Divisiveness

Keating exacerbated grievances. He denigrated the British by saying some silly things about Britain's role when Singapore fell to the Japanese in World War II. More seriously, since there is little evidence of the British dwelling on his opinion, in December 1992 he delivered the Redfern speech. It was unlikely to have been his intention, but by it he contributed to what became the Hanson phenomenon. Speaking of Aborigines he said:

> We took away the traditional lands and smashed the traditional way of life. We brought the disease. The alcohol. We committed the murders. We took the children from their mothers. We practised discrimination and exclusion. It was our ignorance and our prejudice.

He raised exaggerated hopes and fears that threatened reconciliation.

If 'we' is taken to mean the forebears of European descent of only some Australians, then what he said was undeniable. The catalogue was, however, excessively one sided. It made no mention of acts of kindness to aborigines; the reasons why children were taken into state custody; the punishment of the murderers; the murders of Europeans by Aborigines; material benefits arising from western technology including medicine; social benefits such as the rule of law and the status and protection of women; and the fact that the ignorance and prejudice was (and still is) mutual. Further, the tenor of the speech was that the sins of the fathers should be visited upon the children and millions of non-descendants whose only crime in this context was to be of races other than aboriginal. Many good natured Australians who wished Aborigines well and who were prepared to assist in their welfare, felt no sense of guilt and resented having it thrust upon them.

Keating had not up to that time taken much interest in Aboriginal issues.[388] Not long after the address, Don Watson, a speech writer on Keating's staff, conceded that he had written the speech as an 'ambit claim' and had not expected the Prime Minister to deliver it without amendment.

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[388] Peter Walsh, *Confessions of a Failed Finance Minister*, Random House, 1995, p 248

Keating was pandering to the politically-correct view that anyone who questioned the centrality of land to Aboriginal welfare was racist. Seventeen years of land rights in the Northern Territory had not measurably improved the health and material welfare of the average Aborigine. International experience was that private property title could radically improve living standards but the title had to be tradeable not an inalienable title of the type discovered by the High Court.[389] The arguments of those who questioned land rights may have been wrong or irrelevant. For instance, one might argue that the situation was deteriorating and land rights slowed the rate of deterioration, or argue that land rights were granted to serve non-material ends. To question the relevance of land rights to Aboriginal welfare was not, however, racist.

Keating also exacerbated differences between supporters of multicultural policy and its opponents; between welfare recipients and taxpayers; between country and city although no more so than the Country Party had once done; between men and women; and even, erratically, between collectivists and individualists. He poured fuel on the few remaining embers of the old dispute between Irish Catholics and Anglo-Saxon Protestants but, fortunately, these failed to ignite. He may sometimes have sought votes but mostly it seemed that he could not help himself.

He fostered what Geoffrey Blainey had referred to as the 'black armband' version of Australian history, a version that would have us believe that that little noble and uplifting had been achieved since 1788 while there was much to be ashamed of. Of course, during two centuries there were many shameful episodes but a fairer reading of the past showed our forbears in a relatively favourable light – or so most people including historians believed. It was asked whether any nation and especially one with a huge migrant population that was ashamed of its history could cohere.

By his invective he damaged his political standing, handing the Coalition in due course a landslide win. The loss for the dry ideal derived from loss of his ability to lead people toward good public policy. Moreover, by turning Australian against Australian he sacrificed some of the sense of common purpose upon which reform must rely. Reform creates losers – if it did not it would have been undertaken long before. People are not as selfish as they are often portrayed and will mostly accept policy-induced losses to benefit a community that treats them fairly and listens to their contrary opinions. However, they will not accept being put down or ignored.

Keating was, of course, to blame for only a small part of the alienation that was becoming evident in the rise of single-issue action groups and would later become more evident with the sudden rise of the One Nation Party. He had merely climbed aboard a bandwagon that was already rolling hard, briefly demanding the bandmaster's baton. McCarthyist accusations of racism and bigotry vented upon people who express opinions, however wrong those opinions may be, are not compatible with liberal civilised society and certainly not with a program of reform. In a society in which democratic rights are thankfully all but inalienable, reform rests on the ability to change, not to smother, opinion. Comments by the Race Discrimination Commissioner, Irene Moss, were symptomatic of what was becoming a problem and not just for Dries. She had said that there must not be a referendum on

[389] Hernando de Soto, *The Mystery of Capital*, Bantam Press, 2000

the Mabo issues because the Australian people could not know or understand the facts.[390] Her assumption of superiority irritated rather than convinced people.

When Alexander Downer, who had succeeded Hewson as Liberal leader, observed to the Western Australian Liberal Party that the *Native Title Act* was flawed, he said almost what Justice French subsequently argued and the Prime Minister conceded, but he was hounded as 'racist'. When he tried to crack a silly little joke about domestic violence, he was similarly hounded as 'insensitive'. The press reactions might have been dismissed merely as unprofessional journalism during a lets-get-Downer week, of which there were several, had not the consequences of political correctness been much more serious than the downfall of yet another Opposition leader. Bitterness that was to do some real harm (to be discussed in Chapter 16) was building up. When resentful people are denied the right to voice their grievances, they acquire another reason, often a better one, to be resentful.

Labor's Ten Years

In 1983, when Labor defeated the Coalition, Australia was emerging from one recession and by 1993 it was emerging from another. The vagaries of the business cycle do not, therefore, much distort Labor's record. The often long and largely unknown lags between policy changes and their economic or social effects, however, make it difficult to assign political credit (or debit) to the appropriate ledger. The Canadian Fraser Institute, however, rates nations by their practice of economic freedom. In 1975 Australian economic freedom was rated 6.5 (17th best internationally). By 1990 we rated 8.0 (11th best internationally). An absolute and relative improvement.[391]

Over the decade from 1982-83 to 1992-93, the Australian economy grew by only 1.3% per head per annum compared with 2.2% over the two decades to 1982. In consequence, Australia's GDP per head fell from 10% below the OECD average in 1982 to 16% below in 1992. This poor showing reflected Australia's dismal productivity growth from what was, in any case, a poor base.

Real wages increased by only 0.1% per annum but, because of increased aggregate personal payments to the unemployed, the sick, aged persons etc, real household income grew at about the same rate as during the previous decade, that is, at 1.2% annually. Consumption per head grew at 1.4%, the difference between it and income reflecting a further decline in the savings rate, which had declined in the previous decade also, and probably also some increase in earnings within the underground economy.

By the end of the Keating Government, tariff reduction was working more or less as anticipated. Since 1986 the total value of exports had increased by 130%. Productivity growth, for the first time in decades, exceeded the OECD average. The Productivity Commission showed that the 'multifactor productivity' of the market sector of the

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[390] David Barnett, *John Howard*, Viking Press, 1997, p 623

[391] J Gwartney and R Lawson, *Economic Freedom of the World Annual Report 2001*, p 126. (Note: the numbers have been recallibrated and do not directly compare with numbers in earlier reports.)

economy which had been a poor 1% per annum from 1985 to 1993 jumped to 2.4% per annum from 1993 to 1998.[392] This was indeed a big gain. The Commission illustrated how it had been achieved with numerous case studies that showed also that the industries that had gained most freedom, a few years later, gained most productivity.

During the nineties, manufactures had increased their share of all exports from 12% to 20% if transformed commodities such as meat were excluded from the definition of manufactures, and from 53% to 61% if these were included. Attitudes to protection had changed. Even the president of the Textile, Clothing and Footwear Council, Tim Todhunter, had declared that his industry must abandon its sweatshop image to concentrate on exports of goods at the creative end of the market.

At the beginning of the period, net national saving, which is saving after deducting depreciation, was a dismal 0.7% of GNP per year. This measure rose to a respectable 8% in 1988-89 only to become negative for the year to September 1992. The most important factor affecting these trends had been the budget deficit or surplus. When the Government was saving, that is when there was a budget surplus, Australian ownership of the total capital stock increased reasonably satisfactorily, whereas Government deficits at the beginning and end of the period offset private and business savings.

Failure to save the funds needed to finance Australian investment had been consistent with the dramatic increase in foreign debt. Net foreign debt had increased from $23.4 billion (13.6% of GDP) to $162 billion (42% of GDP). Interest on that debt had taken 9% of export income in 1982-83, it had risen to 20.8% in 1989-90, and fallen to 15% by 1992/93. The current account deficit had risen from 3.8% of GDP in 1982-83 to 6.1% in 1985-86 and fallen to 3.3% in 1992-93.

Further, the OECD, that had estimated that Australia could not maintain growth of more than 3% without unacceptable inflationary pressures,[393] had also estimated, that, labour market practices being unchanged, 4% growth was required to reduce unemployment. Because the micro-economic reforms of the previous decade were beginning to take effect, the OECD's estimate that growth above 3% was unsustainable was beginning to be wrong. Its labour market estimate was not necessarily relevant because there was no good reason not to reform the labour market practices. Nevertheless, comparison of the 3 and 4% figures entered debate.

Over the ten years of Labor's office, employment increased by about the same rate as that of the previous two decades. Unemployment, on the other hand, increased from just over 7% to reach 11% in 1992. The Australian unemployment rate had increased from one percentage point below the OECD average, which includes several other sclerotic economies, to 2 percentage points above it. If those figures were not bad enough, unless there had been a sharp decline in national health, the numbers of invalid pensioners, which had increased by 76%, hid further unemployed.

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[392] Productivity Commission , *Microeconomic reforms and Australian Productivity: Exploring the Links*, Canberra: Aus Information, 1999, volume 1, p 27
[393] David Barnett, *John Howard*, Viking Press, 1997, p 687

When Labor came to office, Australian inflation had been 11.5% and double the OECD average. By 1991-92, this had been reduced to around 1% and was below the OECD average. Despite Labor condemning Fraser's fight-inflation-first policy it had succeeded against inflation where Fraser failed.

For what the data are worth, during the Labor years the kangaroo population increased from 13 to 18 million.

If no allowance were to be made for the time between policy implementation and its intended effect, then, except for inflation, the record of the Hawke and Keating years is poor or at best mediocre. Deregulation and privatisation do not, however, have immediate effects on productivity. Changed incentives must first influence physical capital, skills and attitudes. It takes years to replace, say, an obsolete steel mill and almost as long to acquire new skills. Even to change the ratio of manpower to machines may take months of bargaining.

The most important consequences of the 1980s reforms became evident only in the 1990s. Because of this, the Freedom Watch data do the ALP more justice.

The last three Labor years

As the Second Keating Government progressed, the financial markets delivered pointed votes of no confidence by driving up yields. Respected and disinterested critics, and the Prime Minister himself, contended that the higher yields were not justified by rational evaluation of the economic indicators. That may have been the case, but the political indicators were causing disquiet.

Should investors believe that, henceforth, economic managers (particularly Governments) would show less fortitude, understanding or competence than they had hitherto, then it becomes rational to hold stocks only at lower prices. When several sell, then yields rise. Since investors look beyond the next election, high Australian yields and the low exchange rate were also indictments of the Opposition as it had then become.

At the point in the business cycle when deficit reduction is most easily achieved, namely in the boom when tax yields are highest, the Keating Government had used asset sales and revenues from heightened business activity to finance expenditure that increased the structural budget deficit by some $1.9 billion. The implications for the deficit during the next economic downturn were bad and shortly the incoming Howard Government was to claim with justice that it had been left an $8 billion black hole – shades of the $6 billion black hole inherited by Hawke.

Worse from the viewpoint of investment managers, it had become apparent that the Government no longer cared whether what it promised was credible. A Green Paper had stated that unemployment would be reduced to 5% by 2000/2001. This was to be achieved with an average annual growth rate of 4.75%. Leaving aside the issue of whether, without labour market reform, unemployment could be reduced to 5% by any growth rate, the budget papers had forecast growth rates in each of the years from 1993-94 to 1997-98 of 4%, 4.5%, 4.25%, 4.0% and 4.0% respectively. Although these excellent estimates redounded to the credit of earlier Labor Governments, there was

not even one year of 4.75%. If the employment promise were to be accomplished, average annual economic growth during the remaining three years, 1998-99 to 2000-01, of 5.75% in each year would be required. Blocked by the unions from deregulating the labour market, the Government had plucked ridiculous growth figures from the air. It kidded no one.

Investment in the internationally competitive resources sector faced additional disincentives caused by new environmental and native title law that had caused some marginal ones to compare badly with foreign alternatives. Doubts had been raised about the Government's willingness to be bound by its own rules, raising niggling questions about the status of property rights. Hawke had without compensation taken the right to mine at Corronation Hill, and the Keating Government later pre-empted the normal assessment and approval processes to prevent development of the mineral sands deposit at Shoalwater Bay. Investors were now factoring more 'sovereign risk' into their budgets.

While the Coalition cared about the long term, there remained the reasonable expectation of improvement. However, the principled, if naive, Coalition that had lost the previous election had since then worked hard to convince investors that it was little better than Labor.

Apparently convinced that its political ship was sinking, it had cast overboard one principled policy after another starting with tax reform until it finally cast adrift the already emaciated *Fightback*. It had lost sight of the simple values that had sustained it and briefly allowed its politicians to be men and women with a mission. Its industrial relations policy was all that it had left. I wrote at the time:

> But do they believe in even it, or did Howard rescue it from a majority determined to believe in nothing? If elected, would they implement it? What is the future of a party that lacks a cause? Can anybody now say how a Coalition Government would govern?
>
> I have lost count of how often I have heard the Coalition roundly criticised for being truthful on the occasion of the last election. Business leaders and industry organisations, that only two years ago vigorously advocated needed reforms, are now scared to offend the Government. Throughout the community, emphasis has shifted from finding and fixing the causes of economic failure towards ameliorating its consequences.

I was too pessimistic. The Howard Government faced with a hostile Senate and an irresponsible Opposition was to achieve some reform.

The term of the Second Keating Government had been bad years for freedom and Australia was not quite the particularly attractive place to invest that it had been. The momentous gains of the early Hawke Governments were, however, not yet undone.

Defeat

Keating went to the people on 2 March 1996. Labor lost 31 seats in a landslide to the Coalition.

After the election, the contest was portrayed as between 'The Hub' led by Andrew Rob, the Liberal Party Secretary and the Labor Party equivalent led by Gary Grey –

that is, a contest between spin doctors manipulating gullible voters. Good campaigns can determine close elections but this election had not been close.

The contempt that Chattering Class elites have for the common voter is one of the more off-putting features of Australian public life, and it is misplaced. Should the opinions of ordinary voters be left out of future attempts to reform Australian society then the attempts will fail. If I am wrong in that, then the thrust of this whole account is wrong.

In the twelfth century, William of Occam propounded his 'razor', an injunction to the religiously correct not to multiply causes beyond the need thereof. It is still good advice. The simplest explanation of the election was that a well-enough-informed electorate took the following decisions:

- It got rid of a bad Government, as it had done in 1972, 1975 and 1983. It did so by an unusually large margin only because it perceived an unusually bad Government that had divided Australian against Australian and was fiscally irresponsible.
- It voted for Howard knowing that he promised to govern for all Australians and hoping he would do so. Howard lost in the cities of Canberra, Sydney and Melbourne but won handsomely on the votes of those who had been excluded from Keating's formalised deal making with unions, business, aborigines, environmentalists and others.
- It gave big swings to Pauline Hanson in Oxley, Graeme Campbell in Kalgoorlie and two National Party MPs in Queensland, Bob Katter and Bob Burges, because these promised one class of Australians.
- It voted for Kernot's Democrats to the exclusion of the Greens because the Greens had shown themselves to have a careless disregard for the aspirations of ordinary mortals and the Democrats campaigned on the appealing slogan, 'Keep the Bastards Honest'.

In the event, not all of these were true to their promises but that was how they presented themselves at that time.

The Keating Governments had compared unfavourably with the Hawke Governments. As Hawke's Treasurer Keating, advised by a consistently dry Treasury, had been directly responsible for the best of all that Hawke's Governments did – the floating of the dollar, the budget surpluses, the tariff reduction and consequent opening up of the Australian economy, and financial deregulation. For a time, the Hawke team – and it was a team – had given Australians the best Government since at least early Menzies. That team gave the ALP tradition a period of successful peacetime Government.

Keating prided himself on being able to appreciate the 'big picture'. He painted part of it. And yet he sank to the depths of pettiness. Although he had championed tax reform he then destroyed it. He destroyed the Hawke/Greiner initiatives to reform the State and Federal financial relationships. He blew the budget surpluses in an orgy of irresponsible spending. He vandalised his own picture.

Of blue-collar stock, he had appealed emotionally to Labor's true believers and yet these were ultimately the people that he lost. With Walsh, Hawke and Button, he provided the intellectual leadership, argument and tenacity that saw the ALP scrap old socialist dogma to embraced competitive markets and even privatise such icons as the Commonwealth Bank. These things were done for the greater good of Australians.

Keating talked incessantly of reconciliation yet he presented Howard with the perfect election slogan, 'For all of us'.

Chapter 14

The Kennett Revolution

Duas tantum res anxius optat, panem et circenses
Limits its [the Roman people's] anxious longings to two things only – bread and circuses

Juvenal

First there was NSW

The Greiner Government elected in NSW in March 1988, was the first in Australia with an overtly dry platform, albeit 'warm and dry'. It was also the first Australian non-Labor Government to attempt substantial dry reforms. In the event, Greiner's Governments were mildly disappointing but it is the fate of pioneers to make mistakes. Those and his successes were instructive, especially south of the Murray. At around the time of his election I wrote:

> In Australia, warm-hearted politicians tend to favour millionaires, trade union bosses and civil servants. So far as I can ascertain from campaign documents, Greiner's warm promises (which won't break his budget) are made to only three groups: Aborigines, the homeless and the young unemployed. He may be whistling in the wind, but no true dry would complain about those welfare targets. However, I am not alone in fearing that his Government may be tempted to offer taxpayer-funded warmth to such undeserving recipients as middle-class home-owners, farmers, environmentalists and railway unions.
>
> He has shown that dry Liberals can be elected…. It will be a splendid Bicentennial irony if the son of Czech-Hungarian-Jewish refugees shows how to get the best out of liberal democratic capitalism.

On his election Greiner appointed a 'Commission of Audit' to report on the state's finances.

The new Government started well with a mini-budget that the *Sydney Morning Herald* described as a 'dose of economic responsibility' but the first annual budget called for 3% real growth in recurrent expenditure. It seemed that Greiner, a manager rather than a strategist, was resolved to run a better rather than a smaller ship. It was, however, henceforth to be run with an accounting system that treated loans for what they were, that is, repayable liabilities rather than revenue.

Greiner was inhibited from privatising by the tax disadvantage of so doing. Instead of paying the equivalent of a dividend to the State Government, the privatised enterprises would become liable also to pay Commonwealth company tax. Nevertheless, although assiduously avoiding the word 'privatisation', it announced the sale of $1 billion of assets over 4 years – not an ambitious program but an honest start. The tax issue was in due course to be sorted out in negotiations between the Victorian Government and the Commonwealth.

Greiner tried to reform industrial relations by strengthening the centralised system to compel trade unions to obey the arbitral authorities' rulings. To this end he expanded powers under the *Essential Services Act*. The alternative of reducing the reach of industrial awards and allowing individual workers to opt out of the centralised labour

markets, thereby making unions less powerful, was considered but not then adopted. Initially at least, he believed that the Government needed someone to negotiate with because it was itself a big employer and it needed prompt results.[394] However, in October 1990 he legislated to allow enterprise bargaining in NSW.[395]

The NSW State education system, virtually run by the militant teachers' union, was so poorly perceived that from 1983 to 1988 non-Government school numbers rose by 24,500 while Government school numbers fell by almost as much. The Government increased government-school funding while reintroducing the School Certificate, introducing basic skills tests at Years 3, 6 and 10, and abolishing zoning. It relied upon its own authority to achieve ends that few, other than the education unions, would dispute. It seems, however, not to have seriously considered rendering the teacher-union bureaucracies less relevant by devolving authority to the schools. Dr Metherell, the Education Minister, handled the politics badly and, when it came to a head-to-head battle, the unions had the built-in advantages of numbers, control of the system and lots of practice.

Metherell accused the Teachers Federation of telling 'lies, and yet more lies', yet what could he do about thousands of teachers who were misinformed by their union and who passed the misinformation to parents? Greiner was forced to take education policy out of his Minister's hands and into Cabinet, but the damage had already been done.[396]

In a speech reported as pro-environment, Greiner debunked the notion that environmental consciousness and democratic capitalism conflict, proposing market-friendly ways of dealing with environmental failures. He promised that the Government would take care of the commons while respecting the Western liberal-democratic tradition of limited Government.

Greiner and his Chief of Staff, Gary Sturges had attended Crossroads meetings. He understood that his Government's responsibility was to serve the common good rather than that of organised interests. His Governments restored sanity to public finances, improved the delivery of education, health and transport, got rid of some worthless organisations such as the Egg Board, and went some way towards getting criminal elements out of the police force. It was on balance a good record and the Carr Labor Government that followed found its tasks easier because of the reforms.

Greiner's record compares favourably with, for instance, that of the Richard Court Government in WA. It too began well, closing the inefficient publicly-owned Robb's Jetty abattoirs and the Midland Rail workshops, reducing the numbers of school cleaners and reforming industrial relations. It too commissioned a report on the condition of the State's finances by Les McCarrey, a former Under-Treasurer, but then ignored it. Spending was increased by 5%, the highest rate of real increase in WA for three years. The WA Confederation of Industry commented: 'Not only has the WA Government squandered [a] tax windfall on higher consumption, it has

[394] Brian Buckley, *The Greiner Revolution*, AIPP, 1989, p 9
[395] David Barnett, *John Howard*, Viking Press, 1997, p587
[396] Brian Buckley, *The Greiner Revolution*, AIPP, 1989, p 11

increased its tax effort through tobacco taxes and levies on the trading enterprises, in order to fund still higher recurrent spending.'

Of Bread and Circuses

When my wife, Helen, and I moved to Victoria in March 1991, it seemed to us that Victorians were wallowing in more misery than was warranted. So it was to prove, but at that point few anticipated a Government that would address the problems. On top of Victorians' economic problems, unemployment and population drift from the State, there was a perception that Melbourne was, through Victorians' own fault, again losing compared to crass Sydney. One defensive Victorian felt obliged to explain to me that the Cain and Kirner Victorian Governments had not, unlike WA Inc in my home State, been corrupt, merely extraordinarily incompetent. However, 'corruption' takes many forms and, in this, as in other things, there are subtle differences between the States. New South Welshmen (and Queenslanders and West Australians) have the reputation for harbouring more crooks who break the law; while Victorians (and South Australians and Tasmanians) are more adept at subverting the law to their own ends.

Before the 1890s 'Fabulous Melbourne' had been bigger and wealthier than Sydney but since the 1880s, when it opted for protection, Victoria had been the Australian centre of wet sentiment and citadel of protectionism. After Federation and the adoption of free trade between the States and common external trade barriers, wet sentiment had lived on in Victoria, and Melbourne steadily declined relative to Sydney. Uncompetitive industries, particularly in the textiles, clothing and footwear and motor cars sectors, had settled in Victoria, living in a symbiotic relationship with the Tariff Board that had been based there. The Australian Council of Trade Unions (ACTU) is based in Melbourne, living in a symbiotic relationship with the Arbitration Commission. The Wheat Board and Wool Corporation are in Melbourne. The Victorian Chamber of Manufactures is the most protectionist in the land and the high protectionist politicians, such as McEwen and Fraser, came mostly from Victoria.

Victorians are games-mad. More Melburnians turned up to a rugby union match than could have been anticipated in Sydney or Brisbane where rugby rather than Australian Rules is the local code. Melburnians take the spring horse-racing season culminating in the Melbourne Cup seriously. The motor racing circuits at Albert Park and Phillip Island are world-class; so is the Tennis Centre. The Melbourne Cricket Ground cannot but remind one of the Colosseum, the several horse and vehicle racing venues of the Circus Maximus and public attitudes of Juvenal's observation that the Romans limited their anxious longings to two things only – bread and circuses. Mercantilism had eroded Victoria's comparative wealth and influence in Australia as it had eroded Australia's comparative wealth and security in the world.

Victorian priorities had turned too far away from production towards free feeds and entertainment. Few Melburnians allowed worries about Government debt, credit ratings and unemployment to crowd out the weather in race week or which AFL giant might transfer to which club. By the end of the 1980s, however, taxi drivers would admit that there was something seriously wrong in the State of Victoria. Nearer to the top of town (Melbourne is class-conscious) there was resentment that New South Welshmen referred to them as 'Mexicans' and that the Newell Highway to Queensland was becoming a one-way road.

For the securely employed upper middle-class, Melbourne was a very pleasant city but its lifestyle was again becoming as unsustainable as it had been at the end of the 1880s.

Jeff Kennett, who was to prove Australia's most remarkable reformer, used the fact that Victoria was the butt of jokes to encourage financial discipline. He declared that he wished to restore the State's AAA credit rating by 2000. A rejoinder such as 'And Hawke promised that no child would to live in poverty' might have been entirely appropriate had not Kennett actually begun a firestorm of the reforms most obviously necessary to achieve it. Here was a different Government!

Kennett's style

Jeff Kennett attended Melbourne's Scotch College, but the State's bluest bloods tended not accept him. He was of very respectable middle-class parentage, but had a larrikin streak that caused him to defy proprieties that were important to others. He belonged to a political party that was in Victoria as conservative as any in Australia, yet in most things he was liberal. He had an army officer's respect for discipline and ran the most purposeful Government that the State had ever experienced, but he exuded personal skittishness that was to have him in continual trouble. He was loathed among conservative vested interests from Trades Hall to the moneyed professions. 100,000 Victorian's turned out to march against him yet other Victorians decisively voted him back into office.

I had first met Kennett in Canberra where he was demanding more housing money to win an election that the Victorian Liberals did not deserve to win and had no hope of winning. I dismissed him then as one of a type, the State politician who is in love with the trappings of authority and who blames Canberra for his failure to exercise it. I was, of course, wrong. He had failings that were in due course to contribute to his undoing but he defies typecasting. By an extraordinary feat of political leadership, like Douglas and Thatcher, he was to turn a failing economy around and give hope to a despondent community.

Kennett was a small businessman accustomed to backing his judgement with his own money. He had defied bankruptcy by taking on the Printing and Kindred Industries Union (PKIU) when that union had induced *The Herald* to ban copy from his advertising agency. Without the help of other agencies, especially not the big internationals, the newspaper itself or the business community, he prevailed, using S.45D of the Trade Practices Act before the better-known Dollar Sweets Case.[397]

Even so, his resolve as Premier was to surprise most people, not least the denizens of Trades Hall. They were to be even more amazed by opinion poll and electoral evidence that Victorians liked, or at very least accepted, what he was doing. Dries watched him with satisfaction and noted the Victorian public's response with even more satisfaction. Unlike Bob Hawke, Roger Douglas, Ruth Richardson and Margaret Thatcher, he was to be dropped while he was still reforming, albeit at a more modest pace. Unlike each of them, the public, rather than his party, dropped him. Was that proportion of the public that voted him out of office fed up with his reforms or were they fed up with him? – some of both, undoubtedly, but in what proportions?

[397] Tony Parkinson, *Jeff*, Viking, 2000, Chapter 4

Before his first Government in 1992, Kennett had led the Opposition for most of the time from October 1982. He had during that time proposed many of the things that he would do in office, but such was the climate of opinion that he was not taken seriously. Policies that would be adopted within a mere decade, and not only in Victoria, were then dismissed as gaffes. In 1986, public ridicule had forced him to retract a proposal that the State Bank of Victoria be privatised, but a mere six years later the Kirner Labor Government would sell it to the Commonwealth Bank that Keating had part privatised.[398] He had supported even tariff reduction, albeit while urging gradualism.

Kennett was not politically correct, not socially correct, not industrially correct. He was easily portrayed as a wild man who would disrupt rather than reform. In the most conservative (hide-bound might be the better term) State, he threatened the established order within which people knew their places. In this he was remarkably like Thatcher – instinctively liberal and middle class respecting merit rather than status. He threatened politicians who ripped off taxpayers; uncompetitive, lettered professionals and industry captains who pillaged clients or customers; and union bosses who exercised for themselves the power that the Hancock Report had identified. After his successful run-in with the PKIU, the union movement detested him. Trades Hall had effective allies at *The Age* and the ABC, and the top end of Melbourne was not about to defend Kennett – or any other alien spirit for that matter.

The ridicule he faced was approximately as vicious and beside the point of people's real objection to him as that which was once turned upon Bert Kelly. Unlike those who turned on Kelly, Kennett's detractors included not only those who defended economic privileges but also many who could not abide an upstart. The new Premier was dismissed as impetuous, even as a light-weight, which he certainly was not, by the establishments in politics, business, the professions, the media and by the ultra-conservative establishment in Trades Hall. Although he remained consistently offside with the new class he had little difficulty communicating with blue-collar people – again like Thatcher.

When we assess to what extent people of Victoria reacted to reform fatigue, Kennett's personality must enter the equation.

After Cain and Kirner

By 1992 the State was perceived to be in crisis. In October the Kennett-led Coalition won a 34-seat landslide victory and control of both Houses. Victorians were like alcoholics full of resolve upon the morning after a serious binge. They wanted reform but had not yet experienced the discomfort of achieving it.

State debt and unfunded liabilities exceeded $60 billion. The State's AAA credit rating had been reduced to only A1.[399] An *Independent Review of Victoria's Public Sector Finances*, commissioned by the Kirner Government, had estimated that $500 million dollars per year was needed until 2000, to pay capital and interest on public debt, if no more debt were incurred. The Cain Government had had faith in forms of

[398] Tony Parkinson, *Jeff*, Viking, 2000, p 68
[399] Tony Parkinson, *Jeff*, Viking, 2000, p 108

state intervention that by the 1980s had consistent records of failure. It had borrowed to develop the States industrial base – to pick winners – and the Victorian Economic Development Corporation eventually collapsed under a load of bad debt. Kennett had predicted its fate.

An aside throws light upon the extent to which 'the establishment'[400], a sort of secular state church interested in trade union issues, social engineering and permissiveness, would go to frustrate Kennett. It is peopled by those whom Katherine Betts' called the 'cosmopolitan new class' who work in the knowledge industries, and who dominate universities, the media, public policy, education and the arts' and who hold values that conflict with those of the majority of Australians. When before the 1988 election *The Age* was given evidence of the VEDC debacle it declined to run the story. *The West Australian* had done the same with the WA Inc scandals, leaving Eastern States papers to break that story.

The merchant bank subsidiary of the State Bank, Tricontinental, racked up truly huge losses that eventually led to a Royal Commission and the sale of the State Bank in 1990. Four years of dry policy reversed the trend, but in the ten years to 1996 Victoria lost 3.2% of its population. This was only slightly more than NSW, which lost 3.0% but it was, nevertheless, considerable.[401]

As the election approached, the Liberal Party ran effective advertisements identifying Labor as 'The Guilty Party'. Neither side resorted to the pork-barrel promises that had long been typical of them.[402]

Shortly before the election I wrote that reform would take time. I was not alone in underestimating Kennett. He immediately embarked on a program to restore integrity to the State's finances and competitiveness to its industry. The rush to change things in Victoria, like that of the early days of Whitlam, was awesome and unsettling. Neal Blewett wrote:

> A flat poll tax, a hike in State charges, increased duties on lotteries and insurance, massive cuts in the public service, teaching and transport staff and the planned closure of 50 schools. In industrial relations the new Government's preference for individual contracts marginalised unions and the industrial commission, while a host of employee entitlements came under attack. Plans were announced too, to dramatically reduce the amounts paid, the duration of and the liability of employers for workers' compensation. This ruthless austerity contrasted with provocative increases in ministerial salaries.
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> By November Victoria was gripped with rolling strikes, masterminded by John Halfpenny and the Victorian Trades Hall.[403]

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[400] The expression was employed in the UK to describe similar people with similar aims and abilities. John Ranelagh, *Thatcher's People,* Fontana, 1992, p 38

[401] Productivity Commission, *Aspects of Structural Change* , aggregating data on pp 43 and 118

[402] Tony Parkinson, *Jeff*, Viking, 2000, p 135

[403] Neal Blewett, *A Cabinet Diary,* Wakefield Press, 1999, p 235

Like the Lange Government in New Zealand, the Kennett Government used the window of opportunity to achieve radical changes at a pace that would not in most circumstances have been possible. The new Government's reforms were nowhere to go uncontested but, like Lange and Douglas, Kennett and his able Deputy, Alan Stockdale, believed in reform upon a broad front. Unlike Lange and Douglas, Kennett and Stockdale had no pecking-order problems and they knew their strategy before they began. Tony Parkinson, a senior journalist at The Age, in his biography of Kennett, *Jeff*, wrote:

> No community interest group was to be left untouched. Some of the constituencies that had enjoyed significant political leverage under the previous Labor Government, particularly the public sector trade union leadership, suddenly found the institutions that guaranteed their power base under siege …
>
> As Stockdale had long argued … the only way to maintain momentum was to launch the assault across as wide a front as possible. 'I had warned the party room that we were in for a lot of flak. We had decided to address all these issues at once. That was the best way to split the union movement, so they could not coalesce around any issue,' Kennett confirms.[404]

Halfpenny represented only an unpopular minority, as did most that were to protest most loudly the rigor of the new order. His biggest rally turned out about 2% of Victorians.

The Independent Commission of Audit

Various groups – unionists, teachers, doctors, lawyers and judges, hospital staffs, shire councillors, welfare agencies etc etc – inevitably convinced themselves that they were bearing more than their share of the pain. It was inevitable too that 'high principle' would be defined to defend privilege. It was inevitable that even the most resolved on the morning after would crave just a little more of the cause of their discomfiture.

Shortly after winning office, the Government set up the *Independent Commission of Audit* to report on the State's finances, chaired by a dry economist, Professor Bob Officer, from the University of Melbourne's School of Business. Its executive officer was Saul Eslake, a senior equally-dry private-sector economist and now chief economist with the ANZ Bank. Its 'number crunching' was undertaken by Access Economics, arguably the leading macro-economic analysts outside the Federal Treasury and the Reserve Bank. It reported Government liabilities of $47,000 for every household in the State, $28,000 of which was owed by the budget sector. Both the debt and the interest liability needed to be addressed but in the 1991-92 financial year the Government's expenses had exceeded its revenues by approximately $2,000 per household and the Victorian Government had been borrowing to cover day-to-day operating expenses. One other State, Tasmania, had also done this. Governments demand that companies publish equivalent information annually, but before this exercise the Victorian Government simply did not know its assets and liabilities.

Kennett and Stockdale were accused of whipped up perceptions of crises to justify excessive powers. But the Commission of Audit Report and the evaluations of the

[404] Tony Parkinson, *Jeff,* Viking, 2000, p 143

international credit rating agencies, Moodies and Standard & Poors, were not Victorian equivalents of the Reichstag fire. And they were not used to increase Government powers significantly, but instead were used to decentralize authority and to rely on consumer sovereignty exercised through markets. The Report was criticised as too prone to blame Labor when 'Only in Labor's last three years in Government did state debt increase at a worrying rate, but even then the ratio of debt to gross state product was still only half of the 1960's level'.[405] It is not, however, my impression that the Report exonerated either past Liberal Governments in Victoria or current Governments in other States. It condemned these too.

Seven years later when the electorate, by the narrowest of margins, sacked Kennett the economy was buoyant and the Government's credit rating had been restored to AAA, while the NSW Government's rating was on watch. During the intervening years Victorians had gained more freedoms than I had dared to hope for and the bread of 'bread and circuses' had been reduced to levels comparable with other states. The circuses had, however, actually multiplied.

Project Victoria

Before Kennett's election the Victorian Chamber of Commerce and Industry, the Institute of Public Affairs (IPA) and the Tasman Institute cooperated in *Project Victoria,* to identify a program of radical reform for the ailing Victorian economy. 12 major corporations and 13 industry groups funded it. The IPA and Tasman Institute published *Victoria: An Agenda for Change* and subsequent papers on reform of the electricity supply, ports, transport, education, Melbourne water, workplace rehabilitation (WorkCover) and local Government. The key elements of health-care reform had been covered in the first publication. The actions taken by the Kennett Government in all of these areas were essentially those recommended by *Project Victoria*.

Was *Project Victoria*, with a budget in the order of a mere $200,000 and adhering strictly to the rule that liberal think-tanks provide only publicized advice, able to set the agenda in each of these important policy areas? The alternative hypothesis, that the recommended policies were those that any reforming Government would have adopted, does not sit easily with the fact that other States did not adopt most of them or adopted them only to the extent that National Competition Policy forced them to. The IPA has, however, never claimed the influence that some opponents of the Kennett Government ascribed to it.

The radical reform would not have proceeded without Kennett and Stockdale and it is unlikely to have proceeded as it did had not someone outlined that particular broad approach in public – both were necessary but insufficient conditions. Had the IPA and Tasman not existed, then advice would still have flowed from the consultants who provided the Government with detailed advice. Consultants, however, are seldom attuned to political philosophy – they tend, for instance, to accept that, if a power exists, it is OK to employ it, without weighing the probability of its misuse. They are also seldom experienced in democratic political persuasion – for instance, they usually write in a style that is beyond laymen and almost never provide the moral

[405] David Haywood, *The Kennett Revolution*, Editors: Costar and Economou, UNSW Press, 1999, p 139

justifications for their recommendations. In short their reports, even when not confidential, while excellent in explaining how to reach already-decided policy positions, convince few of the need to get to them.

Victoria: An Agenda for Change did not whip up debt hysteria. Its principal authors, Des Moore and Michael Porter, wrote:

> At one end of the spectrum [a debt problem] … exists when there is an incapacity to service and/or repay outstanding borrowings; a problem of that order would however be not a problem but a crisis. In the case of a state Government it is most unlikely that such a situation would ever arise in any absolute sense, given the assets held and the power to tax … In assessing Victoria's debt liability, account ought to be taken of the physical assets which have been created by the borrowings … The value of the assets would undoubtedly exceed net Victorian public sector debt. In this sense, therefore, the state Government itself can never be considered a candidate for bankruptcy per se.[406]

When the Victorian Audit Commission published, it was seen that the two independent institutes had somewhat understated the extent of the debt problem.

Project Victoria helped publicise the facts that caused electors to favour reform, for instance, the data showing a higher percentage of Victorians on the public pay-roll than in NSW and other States. Victorian acute-care hospitals were staffed at levels that were nearly 15% above the average for the rest of Australia. Salaries were 6.7% above the average. Yet the anecdotal evidence was that Victorians were not enjoying deluxe service. The IPA's authors recommended that hospital managements be required to provide specified services but that restrictions on how they did it be removed. For example, managements would be able to contract out the care of 'their' patients to private or specialising hospitals and their cleaning requirements to any professional cleaners etc. They would manage their own industrial relations. When that much was in place, then a market in health services should be established in which Health Corporations would call tenders on behalf of the Government for the delivery of services from existing and new, private and public, hospitals, clinics, psychiatric institutions etc. *Project Victoria* offered only the outline of how the Government ultimately proceeded, but it did that with the arguments for the changes. At the time I thought the following passage called for quite a bit of wishful thinking. In the event it was not overstatement.

> … the 'good news' is that adversity instils resolve for change. The community may accept, even demand, a coherent and strategic change of the Project Victoria variety, once the choices are fully understood.

The Government needed advice in much more detail than the essentially econo-political advice offered by Project Victoria. It also needed the confidence that comes from knowing that many people have looked in vain for error in the reasoning that led to the policy recommendations. Instead of relying on its bureaucrats it sought advice from private sector consultants. This caused 'up front' costs, although these were not

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[406] David Haywood, *The Kennett Revolution*, Editors: Costar and Economou, UNSW Press, 1999, p 147. Haywood employs the quotation to demonstrate that there never was a debt crisis. I employ it to demonstrate that Project Victoria and the policy tanks that ran it were not prepared to exaggerate for the purpose of policy advocacy, let alone partisan politics.

large in the context of State budgets. By separating advice from service delivery, the Government removed the likelihood that the advice would be 'captured' by the public service and the union movement. The consultants brought with them experience gained elsewhere, especially in Britain.

The Public Service

The new Government cast about for senior public servants to run its agenda. During the early days there was much talk about getting rid of too many people or of the wrong people and of keeping people who could not be trusted. The town was alive with rumours and then recriminations. In the end, only five departmental secretaries were removed but these did include some key posts. The Government recruited Ken Baxter, a noted dry from NSW, to head the public service. His five-year contract included an extra year's pay if the State met certain goals including the restoration of the AAA credit rating – a radical innovation in public-sector employment!

One of Kennett's first reforms was of the civil service. *The Public Sector Management Act of 1992* adopted strategies already tried in New Zealand. It:

- Provided for better remunerated departmental heads employed by the Government on contracts with limited terms.
- Gave these most senior bureaucrats responsibility for the employment of departmental staff;
- Provided for all senior staff to be employed on limited-term contracts;
- Made contracted staff eligible for performance-based emoluments;
- Reduced the number of departments from 22 to 13; and
- Reduced the number of pay structures from 120 to five broad bands.[407]

The Government was accused of destroying the concept of a career public service and prejudicing its independence. Its response is illuminating:

> The concept of a career in the public service is no different from a career in the private sector. A career is based on individual performance, lifelong learning and the opportunity to apply for jobs either in the public sector or the private sector.[408]

Tony Parkinson reports that Kennett's choice of public service chiefs through his seven years in office appeared as apolitical as had been his appointment of Baxter who had worked for the Whitlam and Wran Governments. Party allegiance is an even more unsatisfactory measure of reforming zeal and direction among civil servants than it is among politicians. Baxter's successor, Elizabeth Proust, had worked as a senior advisor to Cain and her successor Bill Scales came from the Industry Commission to which Hawke had appointed him and he was a one-time ALP member.[409]

Kennett did not, however, provide parity between private and public sector pay scales. He therefore felt obliged to offer officers who had accepted contracts from positions

[407] Tony Parkinson, *Jeff,* Viking, 2000, p 172
[408] Office of Public Employment, no 5, 1992.
[409] Tony Parkinson, *Jeff*, Viking, 2000, p 175

within the public sector, that were in time not renewed, the right to return to the public sector. This did not apply to those recruited from outside the service.[410]

The Howard Government was to attempt similar public service reforms but was frustrated in the Senate.

These changes addressed the shortcomings of the relationship between Governments and the civil service described in the Australian Institute for Public Policy's 1987 *Mandate to Govern* and were consistent with the dry opinion that responsibility should be clear and immediate. The changes let Kennett proceed with a radical program without the obstruction described in *Mandate to Govern*.

Industrial Relations

The Kennett Government's intended industrial relations reforms were similar to *Jobsback*, giving primacy to the rights of individuals and voluntary escape from awards.

The *Employee Relations Act* provided for minimum hourly rates and mandated holiday and long-service and sick-pay rights. Otherwise it gave employees the option of signing up to an enterprise agreement, negotiating an individual contract or opting into the award. Compulsory closed shops were to be illegal. There was, however, the recurring dubious provision that allowed the State to declare industrial action in vital industries unlawful. Dries did not ask that State bullies replace the union and industrial commission bullies. Obliging a person to work on terms not of his choosing seems to me to be about as objectionable as preventing him from working on terms of his choosing – the free voluntary disposal of one's own labour and skill is the most basic property right!

The Victorian Trades Hall Council called a one-day general strike. The Keating Government gave it tacit support but Victorian employees' attitudes were mixed and New South Wales Labor Premier, Bob Carr, said 'A day of strike action when 11% of the workforce is unemployed is not appropriate and not persuasive'.[411]

Long after Kennett's election, graffiti on King's Bridge still asked commuters to 'Sack Kennan' and 'Save Conductors'. The electorate had sacked Jim Kennan, Labor's Transport Minister, but that was not to save tram-conductors. Kennan's Liberal successor, Alan Brown, struck a deal with the Australian Tramways and Motor Omnibus Employees Association (AT&MOEA) that gave him all that Kennan had asked. The Kennett Government got more from the union movement in 10 weeks than Labor got in 10 years. And it got it by negotiation.

Kennan claimed that he prepared the way for Brown's success but Kennan had negotiated from weakness and Brown from strength. When Kennan had tried to reform the tramways, the union welded trams to their rails in Burke Street because it knew that Kennan would ultimately be forced to capitulate. When Brown demanded the same reforms, the Victorian Secretary of the AT&MOEA, Mr DiGregorio, was

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[410] Deidre O'Neill in *The Kennett Revolution*, Editors: Costar and Economou, UNSW Press, 1999, p 85

[411] David Barnett, *John Howard*, Viking Press, 1997, p 607

quick to treat. The Trades Hall Council had wanted the negotiations put on hold until after planned State-wide industrial action, but it had little to offer DiGregorio, whereas Brown offered him continuing relevance in the new industrial order. In return Brown got everything he really wanted and big savings for the State budget.

The State Public Services Federation (SPSF) was reported to anticipate a 25% collapse in membership merely because payroll deduction of union fees was discontinued. The Musicians' Union, in contrast, set itself up as an agent negotiating individual employment contracts and the Federation of Industrial Manufacturing and Engineering Employees said it would consider offering public servants advice on drawing up contracts.

The Victorian reforms were, however, being undertaken on the assumption that Hewson would win the coming Federal election and in short order implement *Jobsback*. When that did not happen, Victorian unionists leaving the State industrial relations system for Federal awards frustrated the immediate reform program. By June 1995, only 427 collective agreements had been registered in the state system compared with 5000 in the federal system. Over the next two years, 400,000 employees moved to the federal jurisdiction.[412] In November 1996 the Kennett Government in effect capitulated, announcing that it would hand over its industrial relations powers to the Commonwealth and Howard's newly-elected Government.

Dries like divided authority and the decision raised eyebrows. However, it passed with little comment. In the highly-regulated environment to which we were accustomed, competing jurisdictions had obvious advantage but, in a deregulated world, jurisdictional competition mattered less. Whether Kennett's move would facilitate or hinder progress toward deregulation was a question without an obvious answer. I expected, wrongly as it turned out, that the Coalition Government would be able to implement the central feature of *Jobsback*, the ability to opt out of awards.

If claims for workers' compensation was evidence, then Victorian employees were more prone to injury, sickness and stress than those of other states and the workers' compensation arrangement, despite premium increases, was heading for bankruptcy. The Government replaced it with a less-generous and less easily cheated arrangement.

Academic advisors to the Federal Parliamentary Dries of my days had often repeated the lesson: 'In economic life, everything depends on everything else'.[413] Free up the markets for what is produced and competition for sales will put pressure on the markets for the people and goods that do the producing. Although economists and other social scientists refer to the law of 'unintended consequences', in Victoria's case some of the ancillary consequences of deregulation were anticipated with relish. The most remarkable feature of Victorian industrial relations during the Kennett years was how much changed, not as a consequence of changed employment law, but because public sector employers were forced by competition to offer better service and prices. Union membership declined steadily. From the middle Kennett years until the 1999

[412] Julian Teicher and Bernadine Van Gramberg, *The Kennett Revolution*, Editors: Costar and Economou, UNSW Press, 1999, p 168

[413] I think I first heard Wolfgang Kasper say it but Austin Holmes stressed the same.

election of the Bracks Labor Government, industrial disputation was low. Thousands of restrictive work practices were abandoned.

Trades Hall's impressive rallies had involving relatively large numbers of civil servants on flexitime but had, in fact, attracted only a modest proportion of employees and had had no apparent effect on the Government.

By the time that, for instance, Alan Brown faced the AT&MOEA, the Government had convinced the union that it would not yield to displays of force. The unions portrayed that and other deals as victories for negotiation over confrontation.[414] The deals could be struck because credible resolve had replaced peace-in-our-time appeasement.

The State budget

At the end of 1991-92 Victorian public sector debt was 29.3% of Gross State Product when WA's public sector debt was 19.2% of GSP and Queensland's only 5.8%. Victoria did not have the worst debt to GSP ratio. Tasmania had that. It did, however, have the worst net-interest to revenue ratio.

Tony Parkinson described Victorians' plight this way:

> In effect [Victoria] had simply deferred the ever-spiralling cost to subsequent generations. As interest rates soared in 1988, international credit agencies became increasingly wary of the State's capacity to repay its debt. Soon Victoria – with a downgraded credit rating – was paying a premium whenever and wherever it borrowed. On every additional $100 million in debt it would be required to repay $1 million more each year in interest than would the Commonwealth, or its rival states of NSW and Queensland.
>
> The Kennett Government came to office facing what it believed was the unprecedented risk of a state actually defaulting on its debt.[415]

The IPA and Tasman Institute had, for Project Victoria, offered the opinion that actual default was most unlikely, but the Victorians' problem was not only that their Government owed a lot of money but also that the situation was deteriorating. What is more, Victoria's repeated large budget deficits during the 1980s had been due to significantly above average Government spending rather than to below average levels of State taxation. In fact, over the preceding three years Victoria had raised an average of $222 million, or 4%, more in State taxes and charges than if it had imposed these at the average rate of all States. State expenditures had risen from $6 billion in 1981-82 to $14 billion in 1991-92. Interest payments were by then taking 20% of revenues.[416] Spending on transport, education and health services above the Grants Commission's standardised levels accounted for much of the increased outlays while there was no evidence that Victorians are getting better quality services – rather the contrary. Victoria's 'difficulties' would ultimately have been ‚made into 'impossibilities' by the fact that high taxes risked driving away the investments needed to provide the tax base to service the debt. Where to cut was obvious. If the State was not to be locked

[414] Tony Parkinson, *Jeff*, Viking, 2000, p 161
[415] Tony Parkinson, *Jeff*, Viking, 2000, p 145
[416] Tony Parkinson, *Jeff*, Viking, 2000, p 143

into perpetual relative decline, the Victorians needed to stop their Government spending $1,200 million or 12% more than was required to provide the same standards of services as other States.

Jeff Kennett's and his Treasurer Alan Stockdale's first priority was, nevertheless, to eliminate the budget deficit. They did so in remarkably short order by raising new but temporary taxes as well as by reducing Government outlays. By reducing debt they nearly eliminated the large interest bill. By the 1998-99 budget, the fourth to show a surplus, Victoria's public debt had been reduced to the lowest level for the century and was likely to be eliminated within three years.

Within days of assuming office the Government had brought down an emergency mini-budget. In April 1993, six months after winning office, it produced a comprehensive economic statement putting each department on notice that its budget was to be cut by a specified sum over the course of the next two years. Departmental managers were charged with evaluating the opportunities for efficiency gains. Dries had always been sceptical of Cabinets' abilities to manage anything in detail, and this procedure accorded broadly with their preferences. When Alan Neave, the head of the Department of Justice, declined to take the Government's budgetary strictures seriously, Kennett replaced him with a non-lawyer – a long overdue change in itself.[417]

Increased revenues achieved half of $2 billion deficit reduction by 1994-95. Revenue from taxes, fees and fines was budgeted to increase by 9.0%, making Victoria the highest-taxed State in Australia. Because of the need to hold and attract investment the revenue increases had fallen largely on individuals – as Sir Humphrey Appleby might have observed, a 'courageous' choice.

In the Government's first year, approximately a $1 billion of new taxes and charges were introduced. These included the so-called State Deficit Levy, repealed in 1995-96 after only 3 years, and substantial taxes on gambling which continue.

Consumption and investment in playthings financed by debt for another generation to service are not moral government. Even though the authors of *Project Victoria* had been charged with solving the major economic and budgetary issues without increasing the burden of taxation, Dries, who knew that public debt had limited Governments' options in the Great Depression, preferred taxes to deficit budgets.

Expenditure was reduced on a very broad front. Programs were eliminated or service providers were required to charge for their services. In the first year the budget sector workforce was reduced by 20% and 300 schools were closed.

Kennett and Stockdale went cap-in-hand to Canberra to seek Paul Keating's approval to borrow $1.6 billion to meet redundancy payments that would produce much greater long-term savings and big efficiency gains. It could have been withheld under Loan Council procedures. Keating, Dawkins, Kennett and Stockdale began bizarre

[417] This for the same reason that a farmer should not have agriculture, a medical doctor, health, and so on. It should not be too easy for the players to capture the referee.

discussions, at around midnight. Keating began by delivering a lecture to the Victorians on fiscal rectitude, which by that date ill became him. He gave the impression that support for the loan application would be conditional on reducing Victoria's own purpose expenditure. Then Keating and Dawkins had to admit that the previous Labor Government in Victoria had borrowed $1.26 billion without Loan Council approval – the circumstances that in 1975 had given the Coalition in Canberra the excuse to block supply. Keating gave a confidential undertaking that the Loan Council would, so far as the Commonwealth was concerned, approve the borrowing but wished the Victorian Government to be seen to beg for it. Keating wanted Victorian seats in the coming Federal poll. The Victorians on the other hand looked forward to a change of Government in Canberra – a Hewson victory. For all of its intensity, the political posturing was not allowed to prevent the responsible Loan Council decision.[418]

In April 1993, Stockdale delivered another economic statement. This brought pledged budget expenditure reductions to 9%. He announced the closing or merging of another 100 schools and further reduction of the public payroll.

Even the most fiscally responsible Governments tend to ignore off-budget liabilities, of which the largest are promises to meet the income needs of future retirees. The Kennett Government contributed a most remarkable $1.4 billion towards the unfunded liability of the State Government superannuation schemes. The Finance Minister, Ian Smith, overhauled public-sector superannuation to reduce future liabilities without taking existing rights – a politically and legally difficult task.[419]

Although the Kennett Government's fiscal management was described as 'ruthless', and was unprecedented in the Australian public sector, 9% reductions in outlays are by no means uncommon in the private sector – I have undertaken such belt tightening myself.

Privatisation

When Kennett embarked on his asset sale program he had the political advantage that the Hawke Labor Government had already announced the privatisation of Commonwealth assets and his Labor predecessor had sold the State Bank. The Kennett Government sold redundant school sites, the Totalisator Agency Board, the Gas and Fuel Corporation, the Grain Elevators Board, BASS Ticketing, the State Insurance Office, the State Electricity Commission, the Victorian Plantations Corporation, the railways freight and passenger services, metropolitan tram, train and bus services, the ports of Geelong and Portland, the Latrobe Valley hospital, prisons and other minor assets. The extent of its sales rivaled the Thatcher Government's privatisations. With the advantage of being able to learn from Britain, they were better conducted. The utilities were sold into competitive environments and the proceeds used entirely for debt reduction.

Private sector development of new prisons and the CityLink toll freeway avoided the necessity for new capital outlays. The operation of speed cameras, country freight services, ambulance dispatch and many local Government services were put to tender

[418] Tony Parkinson, *Jeff*, Viking, 2000, pp 158-60
[419] Tony Parkinson, *Jeff*, Viking, 2000, p 163

primarily for their efficiency gains. By 1994 Melbourne water was paying 76% of its operating expenditure to external contractors.[420]

Privatisations removed the interest burdens, subventions to meet losses and capital demands from the State budgets. On the other side of the ledger, the budgets lost whatever revenues the Government-owned bodies had generated but the net budgetary effect was overwhelmingly positive. The principal economic advantage, however, derived from increased efficiency. Only when managers and staff know that taxpayers will not fund losses do they feel obliged to cut costs and woo customers. Only when politicians are denied the opportunity to interfere with commercial decisions will they cease to do so. And only where there is competition are service providers obliged to cut costs and raise service standards. Consumer and taxpayer gains in, for instance, electricity supply have been huge but there were errors made and the privatised ambulance dispatch service was to prove a running sore for the public and politicians.

Praise and condemnation came from predictable sources and some cynicism is, I think, warranted. The executives of publicly-owned corporations often welcome privatisation, which allows them to escape public-sector pay scales. However, they often resist disaggregation that would oblige them to compete for custom. Trade unions tend to resist both privatisation and disaggregation. Rhetoric is seldom restrained: Victorian prison warders said privatising prisons was 'the depths of depravity'. Treasuries, responsible for budgetary management, too often propose the sale of State monopolies as monopolies because these bring higher prices than competitive enterprises. Governments, wishing to avoid the charge of giving away the public's assets and hoping that the privatised businesses will not too quickly cease uneconomic services and pay off unneeded staff, too often accept the advice of the immediate vested interests. The Kennett Government avoided these pitfalls, breaking up the monopolies and providing market rules that were as competitive as was feasible.

The state's two biggest monopolies, the State Electricity Commission and the Gas & Fuel Corporation, were broken into 16 units that sold for $29 billion. The Government ensured competition where that was feasible and placed legislated price caps on the services where significant natural monopoly existed. The Office of Regulator-General was established to administer these. There is room for argument in all cases where imperfect markets are regulated but there is also a substantial body of theory and documented experience to support what the Kennett Government chose to do.

Alan Stockdale had had the advantage of observing error elsewhere and he was deaf to special pleading. It was boasted that Victoria served as the prototype for the privatisation models adopted by the World Bank and 15 American states.[421] Whatever the truth of that, it was a remarkable performance, but not one that escaped criticism.

Selling public assets does not, like the granting of a tariff, confer an economic privilege, but unfair processes can give some economic players advantages. Some difficulties are not easily avoided. The quality of service as well as tender price is

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[420] Ernst, *Privatisation, Competition and Contracts*, p 122, quoted in *The Kennett Revolution*, Editors: Costar and Economou, UNSW Press, 1999, p 154
[421] Tony Parkinson, *Jeff*, Viking, 2000, p 182

relevant and a measure of judgement is inescapable. Tendering itself is expensive and, to reduce wasted effort, preferred tenderers must be short-listed and small contracts assigned by ministers and bureaucrats. Again a measure of discretion cannot be avoided. It is likely to be difficult to assess the value of a monopoly sold into competition. (Opinion after the event is that the Victorian Governments sold extremely well. There was no doubt some luck in this and the part-reformed Australian economy was switching to a higher growth path that made the assets more valuable.)

A problem that the Government brought upon itself arose from its not being conspicuously open about the processes. Had the Government not claimed that relevant information was commercial in confidence, had it encouraged the Auditor General to report critically and had it provided Parliament with greater opportunity to question its procedures, it would have faced nit picking, the steady raising of the procedural bar, and delay. It avoided these by treating the Auditor General, Ches Baragwanath, and the Parliament with contempt and both exacted reprisal.

Roger Hallam, who became Minister for Finance in the Second Kennett Government, concedes that it would have been better to have told companies that when dealing with the Government they could not expect commercial confidentiality.[422] Had the Government done so, a politically costly public row with the Auditor General may have been avoided. Even though the Government would have still faced criticism – possibly more of it since the vested interests would have gained time to organise and discover better arguments – the most serious accusations of preferment or procedural breakdown could have been rebutted.

The *State-owned Enterprise Act of 1992* had empowered the relevant ministers to pave the way for privatisation by removing or making explicit hidden cross-subsidies and community service obligations. It enabled, in some cases for the first time, a commercial accounting of the provision of the various services. However, the Act also had the effect of removing the organisations from parliamentary scrutiny. The Victorian Parliament had never been diligent, or even competent, in its oversight of the statutory authorities but Parliament is an honoured institution that is as effective as any at making the public aware of matters of which it might not approve. The necessity of guarding the guardians does not disappear because particular guardians are dry.

Some Government assets that were not considered for privatisation were instead asked to show a return on public investment. National parks in the snow country, the Grampians, Wilson's Promontory and at The Twelve Apostles were expected to develop their tourist potential. Amid much controversy, the Government developed Albert Park as a venue for the Grand Prix. Dries were as happy as anybody else to see the run-down Albert Park rejuvenated but suspected Governments that ran circuses.

When the errors are conceded, the Victorian privatisation program remains as well conducted or better than any in the world.

Local Government

[422] *Tony Parkinson,* Jeff*, Viking, 2000, p 188*

Victorian local Governments were small, inefficient and high cost. The Minister, Roger Hallam, had this to say about them:

> Municipal reform is important not only because this is a major industry – with turnover of more than $3 billion in Victoria alone – but also because local Government has a major impact on other parts of the economy.
>
> Aggregate local Government expenditure in Victoria is 23% above the average for all States. Expenditure per capita is 20% higher. Victorian councils exact 12% more rates, fees and fines than other councils around the nation. Only part of this picture can be explained by the fact that Victorian Councils provide more in human services than interstate.
>
> Business in Victoria is hampered both by these cost structures and by the vagaries of a planning approvals system that might deliver a decision in one week or ten depending on which side of the municipal frontier the applicant happens to be on.
>
> Previous attempts to lift the performance of Victoria's councils were stymied by legislative inadequacies and the willingness of vested interests to squander vast sums of public money to frustrate reform.[423]

Whether the gross inefficiency of the sector was due primarily to diseconomies of scale or to union capture and administrative sloth is not clear. *Project Victoria* had, however, identified the fact that per-capita expenditure was 20% above the national average and that the least cost-efficient municipalities were the small ones. It had recommended that the inefficiencies be addressed by tendering out all major expenditures and by amalgamating local Government areas to form more efficient units. The first recommendation was sound but compulsory amalgamation was not consistent with the usual dry preference for decentralized participatory democracy. It caused considerable resentment that contributed to Kennett's ultimate defeat.

If the *Project Victoria* advice was flawed, no one was more to blame than I was. I signed it off, blinded no doubt by the enormity of the inefficiencies it identified and by the widespread public contempt that the public had for Local Government. Perhaps, in the general tradition of the free-market think-tanks, the IPA should have been more venturesome, recommending the ideal, a tax base upon which municipalities could survive and the phasing out of Government grants making local councils responsible for their own revenues and encouraging interjurisdictional competition. Such a course would in time have resulted in responsible participatory democracy and, with incentives to reduce costs in place, most of the scale economies achieved by amalgamation could have been achieved by voluntary cooperation.

The Government proceeded to reduce the number of municipalities from 210 to 78 and to legislate for compulsory competitive tendering of at least 50% of local Government expenditure. In 1996, the Government legislated to cap rates. Kennett claimed savings of $400 million. That figure is disputed but rates were reduced. Victorians do not yet, however, enjoy a system of local Government that is as internally disciplined as it might be.

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[423] Roger Hallam, Minister for Local Government, 1994 as quoted in Costar and Economou, UNSW Press, 1999, p 114

Human Services
In the human services portfolios productivity gains of approaching 30% were achieved in only four years.

Kennett's health-care reform could be only partial because the central problem was in Canberra. The Medicare system ensures that patients face no financial incentive to economise and doctors face incentives that are perverse. Kennett, nevertheless, proceeded on three important fronts. He continued Labor's program of decentralisation. He closed four uneconomic city hospitals and twelve in the country, reducing the number of hospital employees by some 10%. And he introduced case-mix funding of hospitals, that is, payment of the hospital that is based on the number of medical and surgical procedures required and performed. Casemix has since been partly adopted by Western Australia, Tasmania and Queensland the ACT and Northern Territory.[424]

The changes were bitterly disputed by doctors, hospital administrations and spokesmen for some rural communities. The Australian Medical Association claimed that public hospitals were chronically under-funded. The AMA, one of Australia's most effective trade unions, never doubts that doctors are dedicated, never admits the adequacy of taxpayer funding and never proposes means to increase public revenues that call for eliminating tax breaks and tax-avoidance arrangements.

Minister for Education Don Haywood proceeded to reform education, with the teachers' union doing all that it could to prevent him. He built the necessary trust by keeping the focus on students, asking of every move 'does this add value to the students' learning'.[425] The focus ensured that his reforms were remarkably dry and that they slowly won the support necessary for them to work.

Commonwealth Grants Commission figures indicated that Victoria spent 15% more in 1991-92 than was required to provide Government-school education at the same standard as the average of all States. It cost $380 more annually to put a student through a Victorian school than a New South Wales school and $1700 a year more than a Queensland school. Nevertheless, Victorian schools were open to students for 11 fewer days per year than NSW schools.[426] Parents were so dissatisfied with the Government system that there was a steady drift to fee-charging private schools. The physical condition of Government school buildings was poor and deteriorating.

Education expenditure was nearly 25% of Victorian State expenditure. It could not have been quarantined from fiscal restraint and no attempt was made to do so. As with other portfolios, the challenge was to find solutions that benefited both taxpayers and consumers, in this case children. To this end, with Professor Brian Caldwell, who had a long-standing scholarly interest in the subject, Don Haywood, began to decentralise authority, responsibility and accountability to individual schools. He dubbed the program *Schools of the Future*.

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[424] Alistair Harkness in *The Kennett Revolution*, Editors: Costar and Economou, UNSW Press, 1999, p 206-7
[425] Caldwell and Haywood, *The Future of Schools*, Palmer Press, 1998, p 166
[426] Tony Parkinson, *Jeff*, Viking, 2000, p 150

Hayward, closed or amalgamated schools and reduced teacher numbers by some 6500 and the central bureaucracy from 2300 to 600.[427] For teachers who chose to be so paid, he introduced payment by performance through a *Professional Recognition Program*.

Opposition from the notoriously militant Victorian teachers' unions was to be expected and he was dealt it in spades. Nevertheless, within only months, over half of the teachers had signed up to the *Professional Recognition Program* and by 1993 only 7% of primary school principals agreed with the statement: 'I would welcome a return to pre-LM [local management] days'. By 1996, 85% of principals believed that *Schools for the Future* had improved learning outcomes for students. A union ban upon providing information to researchers to evaluate the results of the first intake of *Schools-of-the-Future* schools against others precluded more objective evaluation. Nevertheless, 85% was remarkable support.

To identify performance requirements, Haywood established a Board of Studies that in turn established a *Curriculum and Standards Framework*. About 90% of the State's education budget was decentralised so that each school had a budget based on pupil numbers and identified aspects of 'disadvantage'. Local selection of teachers was introduced, as was provision for appraisal of staff. Accountability was achieved by annual reporting to the Education Department, triennial review and (despite a union ban) a learning assessment project that tested students in literacy, mathematics and science in years 3 and 5. Unlike in Britain, league tables of results were not published.

Schools of the Future, although radical in Victoria, had already had each of its elements implemented somewhere.[428] Its central feature, self-managing schools, had been tried as early as the 1970s in Alberta, Canada, and more recently in Tasmania, South Australia, Britain, Hong Kong and New Zealand and tentatively by even the Cain Government in Victoria. What is more, the ideas were not just the brainchildren of right-wing Governments. In 1976, much to the fury of the British National Union of Teachers, British Labour Prime Minister James Callaghan, in his famous (notorious) 'Ruskin speech', had broadly identified the problems associated with centralised bureaucratic management and excessive union influence.[429] By the 1997 British election, self- or local-management was embraced by both Labour and the Conservatives. In Victoria, Labor had taken the first step by abolishing school catchment zones and Ian Cathy, the Education Minister in the Cain Government, had attempted to devolve responsibility to schools.

Schools of the Future received mixed reception from within the school and parent communities but initially schools were merely invited to join it. Interest was sufficiently high to enrol a third of the schools in the first year. Haywood records an episode when a school council president told him how developing his school's charter had 'brought the whole community together'.[430] During the 1980s, many studies had

[427] Caldwell and Haywood, *The Future of Schools*, Palmer Press, 1998, p 40
[428] Caldwell and Haywood, *The Future of Schools*, Palmer Press, 1998, p 10 - 20
[429] ibid, p 87
[430] ibid, p 48 -49

shown that communities flourished best when given responsibility.[431] By the 1990s Dries were predicting such outcomes.

In 1998 the *Education (Self-Governing Schools) Act* sought to emulate the success of the United States' 'Charter Schools' and United Kingdom's 'Grant Schools'. It relaxed long-standing restrictions, enabling individual schools to specialise in aspects of educational excellence, engage staff on individual contracts and enter into fee-for-service commitments with local communities. Schools were not however forced to do these things and the only pressure that would drive them in those directions could be the success of other schools. These changes were quintessentially dry and had been made possible by dissatisfaction with what had been and by patient persuasion. As is often the case, the demands of the rank and file – in this case teachers – proved less selfish than those of their representatives. Faced with arguments that they had initially believed to be wrong, most teachers, nevertheless, had the generosity of spirit to listen.

If the budget savings were not to result in even less satisfactory services, then transport needed changes that were fundamental. The Kennett Government put about 80% of Melbourne's bus services to tender, closed some country rail-lines replacing them with private buses, took conductors from trams, and contracted major road works.

The *Better Roads Levy*, a politician's name for a three-cents-per-litre fuel tax raised to finance needed roadworks, demonstrated why, in the long run, Victoria could not afford to go the high-tax road to budget solvency. Interstate truckies bought their fuel north of the border.

The Politics of Success

Victoria possessed considerable natural advantages to attract investment and people. It did not have the equivalent of WA's mineral resources, but it did have population density, proximity to markets and infrastructure that was more than comparable with any other State.

Cuts in public sector employment ended a lot of jobs but increasing private-sector employment soon offset these. Initially, unemployment did increase but the rise was entirely due to an increased participation rate. Indeed early indications were that, in terms of employment rather than unemployment, Victoria was doing better than any other State. By 1999 population was flowing into Victoria from other States.

Kennett soon lost majority support. Like Thatcher in the United Kingdom, he quickly offended many vested interests and the ugly clashes between trade unionists and the police scared opinion-forming elites. By March1993, the Coalition's opinion-polled support had dropped to 43%. Like Thatcher, Kennett did not blink – better a one-term Premier than a failure – and by August the Government's support was back to 53%. Tony Parkinson describes the turn-around 'after months of confusion and upheaval' as curious and the evidence that the majority of voters were 'locking in behind the

[431] For instance Charles Marray, *In Pursuit of Happiness and Good Government,* Simon and Schuster, 1988, especially Chapter 12

Government's strategy' as becoming incontrovertible.[432] Aware of the experiences of Thatcher, Lange-Douglas and Hawke-Keating, Kennett and Stockdale must have hoped for such a change in sentiment, if not daring to expect it. It seems that when a public learns that its leader does not crave popularity, it grants it anyway.

Like Thatcher, Kennett was re-elected for a second term. In 1996 he was returned with, 53.6% of the vote. He was not, however, unlike Thatcher, to get a third term.

An *Age* journalist asked Kennett: 'People are starting to say when will things start to improve. We have taken this medicine for a year, when do we start to get better?' Kennett replied: 'Well I don't think they are saying that. It took Labor 10 years in Government to fundamentally destroy the economic base of this state. We cannot, even if we went harder, change it in a year. More and more of the community are saying, look, we've got to work our way through these changes. I think a lot of Victorians today feel a lot prouder of their Victoria than they did a year ago.'

The rot in Victoria had started much more than ten years before – indeed 110 years might have been a better response – and the economic base of the state, although seriously damaged by Labor, was far from being 'fundamentally destroyed.' The tenor of his reply, nevertheless, by then fairly portrayed majority public opinion.

In the same *Age* interview Kennett said that he now thought he had underestimated the community's acceptance of tough medicine; that what was being done was done for the interviewer's children; that Victoria was no longer the butt of jokes; and that his Government was respected if not liked.

The *Herald Sun* asked a sample of 1224 Victorian voters the simple question: 'After 300 days, do you believe the Kennett Government is doing a good job?' Sixty five percent said 'yes', only 32% said 'no' and 3% said 'maybe'. The sample was probably less than ideally chosen but it was large enough, the margin was huge, and the question was not loaded.

At no stage, however, did Kennett seem immune from political accident. Speaking in WA about mid-way through Kennett's first term I said:

> Labor, since Brumby became its leader, seems to have shifted its tactics from concentrating on the policies themselves to attacking Kennett, I presume with the intention of breaking down [his] respect. Kennett is accident-prone, and this tendency may be his and the reform package's ultimate weakness. If he can be made to look self-serving, careless of community values, or cavalier; then the public will not trust his reforms. That's politics!

I got that one right!

Dry public policy formation in Victoria during the 1990s had, as in Canberra during the 1980s, been driven by the ideas in currency, the presence of politicians with the courage to lead, and political circumstances that allowed them freedom to legislate. Nevertheless, Kennett's character intrudes more than that of any other dry leader except perhaps Thatcher. His record with drugs law, a matter upon which there is no identifiable dry position, offers insight to it.

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[432] Tony Parkinson*, Jeff*, Viking, 2000, p 164 -165

When Director of the AIPP I had over-ruled a staff member who wanted to publish a paper advocating liberalising the laws limiting access to drugs. I had agreed with the arguments but, nevertheless, had not been willing to see the Institute use up its influence on an issue where I believed it would have little effect. In contrast to my caution, Kennett commissioned the Pennington Report and used its findings to educate a public that was 80% opposed to its findings.

Kennett had not always held consistently liberal views on drugs but by the time that Pennington reported he had come to believe passionately in individual liberty and personal responsibility. His attitude to deregulation of drugs was consistent with, for instance, his attitude to deregulation of employment and his support for a multicultural nation while opposing demands from ethnic quarters for policies that inhibited free speech. He cared passionately, perhaps too passionately, and was prepared, perhaps too prepared, to back his judgement.

James Rowe, writing in *The Kennett Revolution*, quotes Kennett as declaring in 1985: 'I consider drug trafficking the worst of all crimes …I am dead against legalising marijuana.' And 10 years later 'While it would take a 1000 horses … to change my view, maybe there [are] a 1000 horses.'[433] Kennett had also changed his views on economic matters. I had once clashed with him over housing grants but he became a budget manager to rival Peter Walsh. Contrary to what opponents said of him, he had a mind exceptionally open to argument and experience.

He, however, had two character flaws not usually associated with an open mind, arrogance and impetuousness. When frustrated by process or opinion he was prepared to go around it. James Rowe tells that, when Kennett was unable to change the law governing possession of marijuana, he ignored his ministers and his 'angry' backbench to change the way that the law was policed. He was a doer who was careless of process, who could, had he been less well-informed or less well-motivated, have done great damage. This is not a trait that Dries normally admire.

Without the sober Alan Stockdale's steadying hand and dedication to the finer points of principle he would surely have crashed long before he did. They complemented each other extremely well.

The drying of the National Party, traditionally agrarian socialist and particularly so in Victoria, was as remarkable as that of the Liberal Party. The National Party is more a grass-roots organization than either the Liberal or Labor Parties. Nevertheless, by 1997, the Victorian National Party produced a policy statement that might have set, Jack McEwen spinning in his grave. It promised among other things to:

- facilitate the success and development of private enterprise with simplified Government regulations and removal of artificial barriers to markets;
- ensure the Government … is not manipulated by the demands of minority interest groups; and
- limit Government activities to those which cannot or are not desirable to be provided by the private sector.

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[433] *The Kennett Revolution*, Editors: Costar and Economou, UNSW Press, 1999, p 228-9

The Labor Party did not in its public statements go so far in the dry direction, but it did produce a document that claimed to have established 'rigorous financial management principles and operating guidelines for a future Labor Government'.[434] The Pledge faction, organised by trade unions opposed to the free-market policies pursued by Hawke and Keating in Canberra and Kennett and Stockdale in Victoria, was isolated and with little influence. Without creating any waves, Brumby promised that Victorian Labor would follow 'the third way' explored by Tony Blair in the United Kingdom. There was unfortunately no agreed definition of this, but it was evident that Victorian Labor too was drier than it had been.

The Bureau of Industry Economics found that, after the Kennett reforms, Victoria offered the cheapest infrastructure of any state. The State Treasury declared that Victoria's rapid productivity improvement in recent years shows that a serious and well-targeted reform program can provide tangible benefits quickly.[435]

Few Dries had expected so much so quickly and we were interested in the political circumstances that had allowed it. Could the Kennett Government have reformed so much so quickly if had it not been preceded by a Government that was so conspicuously irresponsible? If it had not had control of both Houses? If its Parliamentary Opposition had not been dispirited and barely credible? If the public had not been desperate for some improvement? If a Labor Government in Canberra had not already adopted the dry agenda? Or if a dry agenda had not been so carefully established?

Eventually Kennett became his own undoing but even when he was riding high in the opinion polls taxi drivers gave me the impression that they did not much like him. They knew that they needed him. I predicted then that when his job was done he would be defeated – again I think I may claim some foresight.

Political Troubles

The Labor Party, wishing to avoid discussion of its record, concentrated upon Kennett's integrity.[436] They were unfair but no more so than the Coalition would have been had the boot been on the other foot. Now that his record may be viewed with the dispassion of hindsight Kennett does not seem, other than by way of his parliamentary and ministerial pensions, to have profited from public office. Nevertheless, Kennett was careless about keeping his company, KNF Advertising, at arm's length from the Government. Inevitably, the Opposition and the partisan sections of the media hounded him over matters that were in a political/moral context trivial, including a disagreement with a business partner. He was later pilloried, possibly with more justification, over his wife's purchase of shares in a company called Guandong.

Kennett was high-handed and therefore picked too many fights, clashing with the Auditor General, the Director of Public Prosecutions, the Racing Commission and the Equal Opportunity Commissioner. In each case he tried to restructure the relevant

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[434] Graham Hudson in *The Kennett Revolution*, Editors: Costar and Economou, UNSW Press, 1999, p 100

[435] Tony Parkinson*, Jeff*, Viking, 2000, p 190

[436] ibid, p 209

offices. It is alleged, probably correctly, that in each case he reduced the independence of senior officers that had been critical of him or his policies. Both the Equal Opportunity Commissioner and the Director of Public Prosecutions resigned. The Auditor General hung on and conducted a running criticism of the changes that had, he claimed, reduced his power to audit the Government.

Kennett was further criticised for amending the Freedom of Information legislation by increasing fees, requiring Members of Parliament to pay them and expanding the definition of exempt and commercial-in-confidence documents. In 1994 the Government-owned Australian Grand Prix Corporation set up to run the Formula-One event at Albert Park was exempted from freedom of information law, liability for damages in defined circumstances and immunity from town planning and environmental ordinances. Kennett was never again to go so far in using legal immunities to support a controversial project but political damage was done.[437]

Business, particularly small business, claimed that the short lists for tenders were unfairly compiled. Many, probably most, of the objections were self-serving in that they sought preferred access for Victorian businesses or small businesses, nevertheless, they encouraged the perception that Kennett was enamoured of big business and, more seriously, that he favoured his mates.

His Government abolished the Law Reform Commission and even mooted a proposal to avoid by-elections when a Government majority exceeded five. He interfered in Ministers' portfolios. When in November 1997, Roger Pescot resigned and in an open letter accused Kennett of being authoritarian, the accusations rang sufficiently true to be damaging. It is not necessary to adjudicate any of these disputes to observe that even among strong supporters of the Government and its reforms the perception was established that Kennett flouted proper procedures of accountability.

During the 1990s Victoria went from being the wowser State to a State in which gambling was as important a form of recreation and Government revenue as in any. Inevitably such a change caused considerable disquiet. Horror stories of people ruined by gambling and of children left in motor vehicles abounded. The decision to license one casino had actually been initiated by the Kirner Government but Kennett embraced it and continued with the tender procedures set up by Labor. The new Crown Casino that dominated the skyline and the debate was built in his time and social conservatives blamed Kennett for the two-and-a-half-fold growth in real gambling expenditure.

Kennett got into further political difficulties over the casino tender procedures. A monopoly, the casino was a potentially lucrative investment for the license holders – or so it was thought. The tenderers were short-listed and eventually were reduced to Crown, put together by Melbourne businessmen Lloyd Williams and Ron Walker, and the international hotel chain Sheraton with its Australian partner Leighton. To many people's surprise Crown won after raising its bid in the final weeks. Sheraton-Leighton cried foul and the Opposition accused the Government of being 'corrupt at the core and at the highest levels'. Given the personnel of the Victorian Casino

[437] John Waugh in *The Kennett Revolution*, Editors: Costar and Economou, UNSW Press, 1999, p 57

Control Authority who controlled the tender process, the precautions taken and the denials of people with nothing to gain or lose well after the event, it seems unlikely that there was any malfeasance, particularly not any involving anyone senior. Nevertheless, the accusations were widely believed, particularly in a climate where the confidentiality clauses in all of the many tenders were sources of too easily exploited suspicion.

Kennett was known to be close to Williams and Walker and many Victorians suspected that the tender had been effectively decided in favour of the local boys before it closed. After Crown had won and ITT Sheraton had lost, ITT Sheraton's public affairs manager was quoted in these terms:

> Crown were allowed to raise their bid in the last few days and we were not given that opportunity … We don't think we were treated equally …[438]

When former staff of the Casino Control Authority alleged that ministers were kept abreast of the essentials of the bids during the closing weeks of the tender process, the charge was lent added weight. Then, when the casino management agreement was amended five times to make material changes to the terms of the winning tender, people's suspicions were further reinforced and reinforced yet again when the Auditor General claimed that the Government failed to collect $174 million in taxes that the increase in the number of gaming tables should have required. In fact there is little evidence and none solid that the Casino tender process was corrupted and much to suggest that it was not, but swinging voters had only to have had their suspicions aroused.

Leading figures in the churches attacked the Premier. Archbishop Keith Raynor, in an article in *The Herald*, wrote:

> The Christian faith gives a certain perspective to life. It is concerned with truths and values which are enduring. In fact, they are eternal. Not only that, but living by these truths and values is what enables life in the community to be lived in the most harmonious and fulfilling way.

The values to which the archbishop referred were presumably the moral code. Christians don't hold a monopoly of it, but thus far the article was fair enough.

It went on, however, to object to an economic assumption that the Archbishop said was taken for granted by many on both sides of politics, namely that market forces would shape the best outcome. At that point he wilfully or carelessly misrepresented his opponent's views. Kennett's policies and practices had, I think better than any in the world, demonstrated his concern that under some circumstances markets do fail. Raynor's criticism was particularly inappropriate but Kennett challenged all religious luminaries on the wrong ground, their right to enter political debate in a partisan way when his legitimate gripe concerned the low intellectual quality of the particular criticism.

Tony Parkinson, whose account of the Kennett years is not uncritical of Kennett, the person, wrote:

> Menzies was known to have had a healthy distrust of the big end of town. It was a viewpoint that Jeff – coming from a small business background – shared. Kennett

[438]"The Kennett Revolution", Editors: Costar and Economou, UNSW Press, 1999, p 187

> came into politics an anticorporatist, suspicious of deal making between big business and organised labour. In turn, the business establishment regarded him as an unguided missile….

When the Business Council had threatened the Government with loss of investment if it did not cut a deal with the major electricity users, both Kennett and Stockdale in fact stared them down. Nevertheless, the Government's opponents in the political Opposition and sections of the media successfully nurtured the impression that Kennett was far too close to big business interests for the integrity of the Government. His tendency to go over the top lent credibility to charges that he was indeed 'an unguided missile'.

I have unearthed no evidence that the Melbourne establishment conspired against Kennett but they did not need to. Many of the corporate bosses and leading professional figures regarded Kennett as beneath them. They let it show. They bad-mouthed him. They backed economic and administrative nonsense. They stared down their noses at him as their brethren in the UK had done when the Grocer's Daughter furthered competition, freedom and personal responsibility.

Throughout his whole time in office the Premier treated Parliament as an obstacle to be got around. He rushed bills through, gagged debate and answered criticism with supercilious one-liners. Only Keating had less apparent respect for the forms of the institution. During the final campaign he actually gagged his ministers. Such an exceptional display of arrogance was virtually unheard of and when his action became widely known was his final undoing. When enough Victorians formed the belief that they no longer needed Kennett, then they were more than happy to be rid of him. He was not, however, sacked for his reforms. Indeed a more credible case can be made that these saved his party from the debacle suffered elsewhere and encouraged by his style.

Chapter 15
The Howard Years

The danger is that Australians will think too soon that they have changed enough.
The Garnaut Report

Howard
John Howard, who entered the Federal Parliament in 1974, rose rapidly to the Treasurership. Although outnumbered in the Fraser Cabinet, he had been dry during the motor car dispute, had initiated the Campbell reforms, had tried to achieve General Reductions in Protection and had defended fiscal rectitude. Unlike many ministers, he had not been prepared to curry favour with the backbench by leaking Cabinet information, and the Dries had been dependent on others to learn how he had argued in Cabinet. It was an honourable record.

Nevertheless, his dry credentials were never without blemish. To reach even his best policy prescriptions, he sometimes employed mercantilist arguments. David Barnett cites a speech he had made in 1976 in which he 'articulated the free trade principles which were to guide him for the next twenty years'. Barnett is wrong: clarity of economic thinking is not among Howard's virtues. Howard had told the Commercial Law Association that 'This Government is firmly committed to a free enterprise economy. It considers its role is to promote a satisfactory economic environment, to protect free market forces, encourage economic development and efficiency and where necessary proscribe unfair practices'. Although we all then thought that it was more committed than it proved to be, it was already becoming evident that Fraser's Government was committed to nothing of the sort. Howard is naturally truthful and I doubt he understood the implications of his rhetoric.

He was not consistently mercantilist. When Treasurer he had generally employed non-mercantilist arguments but then he had the benefit of ABARE[439] or Treasury briefs and may not have understood all that these implied. More significantly, the Opposition during the Hawke years, both when Howard led it and when he did not, mostly avoided mercantilism.

However, to the disappointment of Dries, Howard's Government was to rely almost exclusively upon mercantilist rhetoric. For instance it lambasted the US administration for restricting imports of Australian lamb on the grounds that the Americans were 'unfair' to efficient Australian lamb producers rather than to American consumers. Americans were as likely to be concerned about Australian farmers as Australians are to be concerned about automobile workers in Detroit.

Some of his ministers have been even more blatantly mercantilist. On Channel Nine's *The Sunday Program* Laurie Oakes neatly trapped Howard's inexperienced Trade Minister, Mark Vaile, into the clear implication that he believed that Australian tariff reductions had been made to benefit foreigners.

Howard is conservative in the Burkean mould, valuing those institutions that have proven track records. He has a suburban lawyer's sense of justice. He thinks of 'the

[439] Australian Bureau of Agricultural and Resource Economics

law', not so much as the means by which people are rendered passive, productive and good, but as the means by which they are protected from injustice. He has a Tory's sense of equity that obliges the fortunate to assist the less fortunate. He has a keen sense of national identity. He has a conservative's respect for the family. He prefers one law for all – one class of citizenship. These beliefs put him, with most Australians, slightly to the conservative side of liberal-conservative thought.

His background is Methodism, short on ritual and long on the core virtues of truth, courage, prudence and acceptance of personal responsibility. Howard sees a better nation toward which he is destined to struggle but never to reach. Although he covers the arrogance of those accustomed to authority with much better manners than most, he is not a particularly humble man.

He is often disorganised, is not particularly well read in the policy areas he embraces, and is not a good judge of other's characters. He is not a dissembler, is so incapable of using flattery effectively that I once thought him careless of precious egos, but perhaps he just disliked them. Experience tells us that he has a sophisticated feel for legal and political issues but not for economic issues. I doubt the rigour of his dryness and believe that his Governments significantly abandoned public duty for political expediency but nevertheless retain a view I formed of him long ago, namely, that he is a better than ordinarily honourable man.

When he had been acting Treasurer, an enormous promotion he had acquired when Malcolm Fraser was hounding Phil Lynch, I heard him defend Lynch when it would have been very easy to say nothing. When the bottom of the harbour retrospective tax legislation debate was raging, Howard proposed but failed to carry an amendment to the Bill that would have limited taxpayers' losses to their gains made as a result of subsequent illegal disposal of the company. The criticism that that legislation attracted was a serious barrier among Western Australians to his leadership ambitions, but I have never heard of him trying to shift responsibility. When, against his and Treasury advice, Cabinet approved the 1982 budget, he considered resignation but, even after the 1983 election was duly lost, he has never to my knowledge sought to distance himself from that Cabinet decision. Such fidelity is unusual.

The most persistent layman's criticism of John Howard has been that he lacks charisma and he is awkward and a relatively poor communicator. Many who can recall the 1940s have a somewhat jaundiced view of charismatic leaders. On the whole those who are not good at shouting into microphones seem safer.

Leader of the Opposition

Howard bided his time as Downer's standing collapsed and organised it so that he was elected unopposed or, as he put it, 'drafted'. This time, Howard, was not deliberately undermined by his own party members and certainly not by Downer.

Howard still had to deal with Liberal Wets but Macphee was gone. David Barnett had this to say of them:

> The Wets, as the left wing of the Liberal Party, had an appeal to the media, whose members misunderstand their fundamental nature. When their views are close to

> those of the ALP, it is not so much from principle as from timidity. When the going gets tough, the Wets wet themselves.
>
> The Wets are politically correct. They worry when the media is critical. They believe what they read in newspapers… [For them] the art of politics is to find out what people want and then to deliver it, so they can hold their seats.

Although Barnett is unfair to some Wets who were wet from conviction, such as the late Alan Missen, Peter Baume, Robert Hill and Chris Puplick, the observation is true of very many MPs who are wet in the original Thatcher sense of not facing facts and leaking to *The Guardian* or its Australian equivalent *The Age*. Howard now offered these their best and last prospect of holding their seats. All leftists are, of course, not Wets.

It was, however, a more pragmatic, more cynical, Howard that led the Opposition. In possession of a leaked budget working paper, he asked the Government if it was considering several of the various possible 'cuts'. Budget cutting was necessary and his action was blatant scare-mongering and not conducive to good Government. It is a measure of the shallowness of media commentary that he was mostly praised for newfound 'pragmatism' that was, in fact, departure from the high standards he had generally maintained.[440]

When the Government introduced the *Land Fund Bill* offering $1.5 billion to Aboriginal Land Councils to buy farmland, the Coalition sought to amend it to allow title to be held by individual aborigines. In so doing it acknowledged the minimum requirements of a market economy – secure private property rights – and treated Aborigines as adults able to manage their own affairs – as fully-responsible equal citizens. The amendment would have meant that Aborigines could sell or mortgage their properties. Threatened with a double dissolution election fought around this bill and the race issue, Howard backed off. That too was pragmatic although this time the stakes had been raised so high that I am disinclined to criticise.

Howard was no longer prepared to take the public into his confidence, refusing to release Coalition policy until an election was called. Again, after the Hewson experience, it is hard to blame him but the policies and ensuing debate could no longer contribute to public understanding and that was a serious dry loss. When the election was called, Howard released a policy a day – a flood of paper that nobody absorbed.

Tax reform had already been abandoned. Wage flexibility had also been abandoned when Howard announced that Workplace Agreements would be limited by the promise that 'no one will be worse off'. As the campaign progressed the Coalition promised to retain other anti-competitive features of the economy. Most seriously, election advertisements proclaimed the retention of the unfair, hugely costly, much-rorted Medicare. Howard, who had once earned the sobriquet 'Honest John', was determined to be as wet as he had to be to win.

David Barnett offers this account of the dampening of John Howard:

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[440] David Barnett, *John Howard*, Viking Press, 1997, p 664

> The man of conviction who in 1987 was determined to implement a free market reform agenda, even if it meant he got only one term, now considered he had an obligation to the party that had entrusted him with the task of leading it back to Government….
>
> Michael Barnard, a Melbourne journalist who was for many years the sole conservative voice on *The Age*, deplored Howard's 'skirting around issues on which he had previously offered clearly articulated convictions'. He was saddened, he wrote, by Howard's 'apparent conversion from a sometimes spirited defender of uncomfortable principles to today's soothing Valium Man.' Said Barnard: 'He has blurred his conservative contours, at a time when conservatism can be described as the true progressive force of politics.'[441]

Barnard was not alone in his disappointment. However, mindful of our champion's defeat at the last election and Keating's failure as Prime Minister to live up to the promise he had shown as Treasurer, Dries mostly shut up.

Barnard's use of 'conservatism' was confusing. It is true that Howard was in many things conservative, but the principles that Barnard claimed he had failed to defend were liberal. Standing language upon its head is the oldest political ploy. *The Age* had so successfully played it, that had Barnard chosen to give 'conservative' its dictionary meaning he may well have confused his readers. He preferred instead the oxymoron, 'a progressive conservative'.

The Headland Speeches and Civil Society

During the preceding year Howard had made four so-called Headland Speeches. Although saying little about what a Howard Government would do, they conveyed Howard's guiding values, a not wholly consistent mix of conservatism and liberalism.

These speeches contained nothing as memorable as Menzies' 'Forgotten People' or Chifley's 'Light on the Hill'. I submit, nevertheless, that they were the stuff of leadership and more than sufficiently inspirational. They also revealed the tenor of the Government that Australians should expect if Howard became Prime Minister. They were, of course, not blueprints for Government.

In the first (and best) of these he promised to rebuild 'a proper sense of trust and confidence between the people and their Government'. Although he did not use the term, he undertook to do several things which, when taken together, can be interpreted as a promise to rebuild Australian 'civil society' through the range of meanings of that term and especially the spontaneous non-political order intended by Locke. The speech had been made against a background of growing bitterness in politics and the politicisation of an increasing number of aspects of human interaction. By the standards of most countries, Australians were, of course, still relatively at peace with themselves, but they were, nevertheless, divided to a degree to which they were not accustomed. In time, the divisions would cause votes to be cast for the One Nation Party. The citizens of most nations might say, 'Lucky Australia', but many beside Howard had seen the divisions developing and wished to avoid them.

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[441] David Barnett, *John Howard*, Viking Press, 1997, p 719

Believing that respect for Government was weak, Howard promised to 'clean up Government and clean up parliament itself'. In due course he attempted this sincerely but badly, bringing in standards for ministers that forbade trivial pecuniary conflicts of interest but did nothing about the conflict of interest that most often turns Governments from the public interest, namely their interest in holding marginal seats. The civility of the Parliament certainly improved with the change of Government but that probably owed more to the absence of Paul Keating than to the changes Howard made to Question Time and to more even-handed Speakership.

Howard declared, 'I would rather promise half of what people might want and honour 100% of it than commit myself to everything and deliver half of it' and he deplored 'cynical election campaigns based on fear, or the big scare, or the massive lie'. Although he did not live up to all of his relatively modest election promises, his first term came nearer to doing so than did any Government in at least the past thirty years.

Of Government, Howard promised:

> Under us, the views of all particular interests will be assessed against the national interest and the sentiments of mainstream Australia.
>
> For the past 12 years Labor has governed essentially by proxy through interest groups. Identification with a powerful interest group has been seen as the vehicle through which Government largesse is delivered….
>
> In the process our sense of community has been severely damaged.
>
> Our goal will be to reverse this trend.

Shorn of the politically-inspired swipe at Labor, which by 1995 it had come to deserve, that promise went to the heart of what was, and still is, most wrong with Australian politics. Departure from those standards, not the issues covered by the ministerial code or even minor peculation, is of the essence of political corruption.

He was, however, in time, to dispense Government largesse to people associated with motor manufacturers, textile, clothing and footwear companies, media outlets, his brother's company, the Housing Industry Association, and so on. In every case, I am confident that he knew that he did wrong and excused himself with the knowledge that he followed in the footsteps of every Prime Minister.

Howard stated explicitly that he was obliged to offer leadership rather than to compel, but with drug and gun control was to be unusually coercive. He described scepticism about what Governments can achieve as 'healthy' and reaffirmed his commitment 'to restraining the role of Government in people's lives'. He obviously saw the need for Government to make room for civil society and it was a theme to which he returned in his later speeches. He promised 'responsiveness' but he then went on to say 'it shouldn't be used as an excuse for abrogating leadership'.

Although it was not a theme of the Headland Speeches, they made evident that he understood pluralism. His attitude came through in this comment: '…bureaucracy of the new class is a world apart from the myriad of spontaneous community-based organisations…'. His preference for pluralism was later evident in his initial decision

to let Hanson talk herself out. Had he had his way, she may never have been other than a small-time demagogue.

He returned at several points to a sentiment evident in this quotation: 'I have in mind a united community, not an aggregation of separate interest groups…' He did not until toward the end of his second term forsake its pursuit but he then became a vote-buying politician who pandered to those interest groups.

Early in Howard's first term I wrote:

> The first draft of the first Headland speech was probably written by somebody other than Howard, who also had a feel for the civil order. It, nevertheless, has Howard's own stamp reflected in, among other things, several departures from the logical order of argument. Howard is no rationalist and, therefore, some inconsistencies were only to be expected. Rather, his strong preference for the civil order is ingrained, almost instinctive. His instinctive rather than rational approach is nowhere better exemplified than in his reaction to the Port Arthur massacre and to firearm ownership. On balance, I think the Australian civil society is safer with matters that way. The important thing is that our Prime Minister should know when he departs from civic virtue.

Howard spoke of five pillars of reform underpinning the Australian economy – financial deregulation, tariff reduction, labour market reform, fiscal consolidation, and tax reform. His record may be simply stated. The first pillar was already sound, the second he weakened, and the last three he strengthened somewhat.

First Term Caution

By when the Coalition won the 1996 election in a landslide but not with a majority in the Senate the liberal reforming zeal had substantially abated world wide. In Australia, the Coalition had by then abandoned so many policies that it did not have a mandate for good Government. Since the Senate treated with contempt such mandate as it did have, on industrial relations for instance, that may not have mattered as much as I believed at the time. Not long after relinquishing Opposition Leadership, Alexander Downer, responding to the familiar assertion that the Opposition should stop criticising and say what it would do had retorted, 'That's a bit rich. We did just that and lost an election'. He said, moreover, that those who really wanted to know what the Opposition thought should be done should re-read the nearly 700 pages of *Fightback*. Except for the GST, it still stood, he said.

By the election date, however, it did not stand. Howard had significantly shifted his mission from enhancing freedom to winning office and his loyalty from the nation to the Liberal Party. The Crossroads Group had been wound up and, although the Society of Modest Members continued to hold periodic meetings and circulate copies of relevant short articles, contact with the think tanks and the ideas world generally had declined. Austin Holmes was dead and Wolfgang Kasper and David Trebeck were no longer offering regular advice to loosely organised groups of politicians determined to improve the quality of Government. The change was not only in the politicians. Those outside the parliament had had to concede that they had set back the cause by demanding of Hewson more than he could deliver and everybody had become more cautious. With sufficient accomplished to avert disaster, the *Zeitgeist* had changed to one with less enthusiasm for reform, and the 1970s and 1980s Dries

had not been sufficiently successful in recruiting younger men and women to the crusade.

Howard began in a leisurely fashion that contrasted most obviously with Kennett's and Stockdale's rush to reform in Victoria but also with Douglas and Richardson in New Zealand, Thatcher, Reagan and even Greiner. It was as if, disheartened by the Fightback experience, the Coalition had this time not only not announced its plans it not even made them. It drifted, as it had drifted after the 1975 election.

Treasury officials greeted the incoming Government with the usual written account of the state of the economy. It laid emphasis upon the budget deficit, an economic problem that Howard had not promised to ignore.

> Government and especially the Commonwealth Government, has been a major contributor to the decline in savings, which has been the key cause of our current account deficit problems. Moving the budget back to sustained structural surplus is therefore fundamental to restoring saving to a point where we can fund the investment we need to sustain higher growth rates without periodic Current Account Deficit problems.

Despite the deficit and unemployment, Keating had passed the economy to Howard in far better shape than Hawke had received it from Fraser thirteen years before.[442] Tariff reductions, deregulations and privatisations were beginning to produce better annual productivity gains. Australians were in a better position to take advantage of 'the investment we need to sustain higher growth rates' than it had been for at least several decades – the Productivity Commission was later to argue that it was in a better position than it had ever been.[443]

From the start Howard displayed excessive caution and was to learn that it incurred two costs. Much-wanted rewards were delayed and he quickly found his leadership credentials questioned.

On coming to office Howard had had Professor Bob Officer chair the *National Commission of Audit* as Officer had done for Kennett in Victoria. Unlike the Victorian Audit, this did not reveal a crisis because there wasn't one. It did however place on credible record examples of expenditures and tax concessions 'captured' by vested interests and Government business activities and services that could have been more efficiently undertaken by the private sector. It suggested means to effect improvement of the division of finances and responsibilities between the Commonwealth and the States that would have reduced overlap, inefficiency, buck-passing and wrangling. It listed some common-sense approaches to efficient administration with examples of where these were honoured in the breach. It repeated warnings made by others of the budget pressures that would arise from the ageing population and urged early action. It raised some tough issues such as the effect of wide access to social security benefits upon savings. It showed that the Commonwealth's total liabilities exceeded its assets

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[442] David Barnett, *John Howard*, Viking Press, 1997, p 735 says the opposite.
[443] Productivity Commission, *Microeconomic reforms and Australian Productivity: Exploring the Links*, Canberra: Aus Information, 1999, the summary. and Dean Parnham, *The New Economy? A New Look at Australia's Productivity Performance*, Productivity Commission, Staff Research Paper, 1999.

by $74 billion, over half a year's revenues. In addition, it noted some $174 billion in contingent liabilities.

I have little doubt that the Commission of Audit Report was dismissed by the majority of the senior echelons of Commonwealth civil service as something that they could have provided better. They would, however, have confused 'better' with 'in-greater-detail'. The Victorian Commission of Audit had served two purposes: it had helped the Government to 'hit the ground running' and it had provided authoritative justification for the Government's actions. Howard and Costello failed almost totally to use their Report for the second purpose. Rather than confront the issues it raised, they, so it was said, filed it between sheets of asbestos. Where was the leader who had once believed in open evaluation of economic issues, had been responsible for commissioning the seminal Campbell Report and had declared that he wanted to be a reforming Prime Minister?

The Government did, however, in 1997, begin a process that required Commonwealth departments in consultation with the Industry Commission to prepare Regulation Impact Statements. These were intended to give Government decision-makers an even-handed assessment of all the viable options including non-regulatory ones. Most importantly, the Statements were to be tabled in the Parliament with the relevant Bill or disallowable regulation – another step towards accountable decision-making; another barrier to capture of the Government by vested interests. However, the Productivity Commission would report that in 2000/2001 only 60% of the impact statements for the 'more significant' regulatory proposals were adequate.[444] The suspicion that the adequacy of the impact statements for the more reprehensible regulatory proposals might be near zero is compelling.

Although Howard's critics often did not allow sufficiently for democratic processes, they were not just carping. The strategies for making the most important reforms politically possible were absent from a 'first-term report' with which Howard indulged himself. This Report was an essentially political exercise. There is nothing wrong with that but it compared unfavourably with the Headland speeches and the 'agenda for next year', far from being as it claimed 'clear', was singularly obscure. The section of the *Report Card* dealing with export performance was mercantilist in tenor. Had Howard forgotten the strategies he employed to make financial deregulation politically acceptable or was the Report someone else's a bright idea that he barely checked?

Unlike Fraser in his first two terms, Howard had not had the numbers in the Senate. Unlike Hawke, he had not had an Opposition that would support economic reform. But, unlike Keating, he had had the possibility of wooing two independents to give him the necessary Senate numbers. During the election campaign the Coalition had promised to eschew major tax reform, retain Medicare, and had watered down labour market reform. There, nevertheless, was still ample room for a Government that had the will to reform to do so. Had Howard, while his Government's popularity and mandate were still strong, made it clear that he was prepared to take both Houses to a double dissolution election, the Labor Party if not the Democrats in the Senate might have been more accommodating.

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[444] Productivity Commission, Regulation and its Review 2000-01, AusInfo, Canberra

If they move promptly, new Governments can effect reforms that will bear political fruit before the next election. Howard squandered his opportunity upon gun laws and opposition to the campaign to make Australia a republic. These were sidetracks that would not much affect the lives of our children.

Foreign debt and the dollar

When Howard was elected in 1996 the national net external debt was $193 thousand million (146% of GDP). This was up from $78.4 thousand million (82% of GDP) when Keating had delivered his Banana Republic warning, and it reached $300 thousand million (190% of GDP) by 2000. Australia had a small trade surplus but a current account deficit adding inexorably to foreign liabilities. Most of the difference between the trade account and the current account comprised interest payments and dividends due because of the liabilities that had financed previous current account deficits.

Attitudes to these had, however, changed radically from when John Stone had delivered his Shann Memorial Lecture and when Keating and Walsh had warned of sliding into Third World economic status. It was now generally believed that the reforms of the 1980s had so improved Australian productivity that we could now afford to import large licks of foreign capital – the counterpart of the current account deficit. The debt to foreigners was now almost all private and the risk of default would be carried by foreign lenders not Australian taxpayers. It remained the case that we would serve our children better if we saved more, but why should Australia forego development beyond the capacity of our own savings?

As has already been recorded, Dries were not agreed about the balance of the dangers and advantages of foreign debt. The supply-side reforms had increased the capacity of investors to earn high returns and therefore reduced the risk that the interest burden would at a future time reduce living standards or that non-performing loans would damage our reputation to the point where further borrowings were impossible. Nevertheless, the change of sentiment was remarkable. If we had been too fearful of foreign liabilities in the 1980s, were we too sanguine in the 1990s? In the event of economic downturn might we not find the cost of servicing it (or of default) high?

When Howard was elected, the A$ was worth US$0.78 (TWI: 56.8)[445] At the time of the Banana Republic interview it had been US$0.72c (TWI: 60.7). By mid 2001 it hovered near the US50 cent mark (TWI: near 50). Since inflation was well in hand, the low value of the dollar was not inherently bad, but to what extent was it a measure of an economy still in need of major reform, and in which reform had almost ceased and looked as though it might be reversed? Not just economic but also political fundamentals influence markets.

The Budget

When the Coalition came to office, the 1995-96 budget year was well advanced and it was an open secret that the budgeted surplus of $3.4 billion was badly awry. It was in fact over $8 billion out – a $5 billion deficit. During the campaign, an argument

[445] Trade Weighted Index, a measure of the value of our currency against all of our trading partners proportional to the amount of trade with each.

developed about disclosure of the forward estimates so that the Coalition could build its own tax and expenditure commitments from the correct starting point. Keating claimed that these did not exist – only a slight variant of the circumstance in 1982. So long as Keating persisted in his refusal to release up-to-date figures, Howard based his promises upon the assumption that the latest official figures honestly represented the budget's situation. The whole performance was Gilbertian.

In its first year, the Government legislated the *Charter of Budget Honesty* to prevent as much rubbery figuring again. Capital sales revenues were removed from the budget balance and Governments were required to ensure that voters were acquainted with the up-to-date budget situation prior to an election. Although a few wondered aloud if it was wise to deny an incoming Government an excuse for breaking irresponsible undertakings, Dries generally applauded. In 1994 New Zealand had carried the *Fiscal Responsibility Act* to similar effect.

Budget management was the first Howard Government's outstanding success – a success somewhat squandered by the second. Inheriting a budget that was substantially in the red at the point in the business cycle when it should have been that much in the black, it promised, if the economy continued at a reasonable pace, to eliminate the budget deficit over the life of the parliament. Four billion was cut from the first budget deficit – now calculated in a manner that excluded asset sales – and the forward projections showed the 1997-98 budget in substantial surplus. In fact the Government did much better, achieving headline surpluses of $16,468 billion in 1997-98, $12.7 billion in 1998-99 and a massive $22.2 billion in 1999-2000. More relevant 'underlying surpluses' of $1.2, $5.6 and $12.7 billion were achieved.

Costello's 'tough' first budget promised savings of only $7.2 billion over two years and forecast a 0.1% increase in real expenditure. A 9.5% cut to the ABC's budget received more ABC news and current affairs time than did the state of the macro economy and troubles in Jakarta and Chechnya combined. Some Aborigines, disappointed with their subvention, charged the Government with racism. Some unionists looted the foyer of Parliament House and injured a policewoman. Despite these orchestrated howls of protest, fiscal responsibility was well received by the wider public. Indeed, because of the howls of protest, the Government was given credit for more than it achieved. Newspoll recorded that only 12% of people were sufficiently impressed by the special pleading, rallies and the riots to think it was a bad budget, despite 32% believing that they personally would be worse off.

By 2000, in line with the strictures of the *Charter of Budget Honesty*, Australians were assessing budgets in terms of their 'underlying' figures, that is with capital sales excluded. The 1999/00 underlying surplus of $12.6 billion was achieved despite the Timor conflict and the tax cuts and compensation measures associated with the tax reform package. Fiscal rectitude but not small Government had been maintained. Taking the GST and some off budget levies into account, taxation reached an all-time record proportion of GDP.

The financial system

Dries had long argued that central banks should be made independent of politics and given the one task of maintaining a currency that delivered stable average prices. The Government affirmed the Reserve Bank's independence and required it to manage

monetary policy to meet an inflationary target of 2% to 3% but, faced with a recalcitrant Senate, did not enact this in legislation leaving doubts about the future.

It commissioned leading businessman, Stan Wallis, to take 'a stocktake of the results arising from the financial deregulation since the early 1980s'. Wallis recommended removal of the blanket restrictions on foreign takeovers of major financial institutions. The Government did so but with the qualification that large-scale transfers of ownership would be deemed 'contrary to the national interest'. Had the Big Four banks again been as incompetent as, say, Westpac and ANZ had been during the 1980s, they were not to fall into foreign hands nor their managements and boards be faced with the discipline of potential takeover. Howard's reforming zeal was ebbing.

Industrial Relations

When Howard came to office, ample international evidence already demonstrated that unemployment could be reduced by making labour markets flexible.[446] New Zealand, following passage of its *Employment Contracts Act*, had brought unemployment down from 10.9% to 6.4%. The United Kingdom, following Thatcher's reforms, had reduced its unemployment from 11.1% to 5.8% while unemployment in the rest if Europe had stuck at around 10%. Unemployment in the United States, which had always had relatively flexible labour markets, was half that of most Western countries.

Analysis of labour markets had moved markedly toward the liberal tradition with most analysts attributing differences in unemployment to differences in labour-market law. Even British Labour Prime Minister, Tony Blair, and German Social Democrat Chancellor, Gerhardt Schroeder, were soon to call for flexible labour markets. (Schroeder didn't actually do anything to make them flexible.) The New Zealand *Employment Contracts Act* had been popular. A survey by the MRL Research Group had shown with an accuracy of plus or minus 3% that:

- 76% of New Zealand employees were satisfied with their terms and conditions of employment with 20% dissatisfied.
- 41% approved of the *Employment Contracts Act* while 24% disapproved, the remainder having no view.
- 37% believed it had had a positive effect on employment, 23% that it made no difference and 17% a negative impact.
- 54% believed it had benefited the economy, 18% no difference, and 10% a negative impact.

Generally held opinion was thus not an important barrier to labour market reform.

However, as the Hancock Report had warned, the principal vested interest was powerful. Before the 1996 Australian election, ACTU secretary Bill Kelty had threatened Australians with all-out industrial war if the Coalition were elected. He said further that he would arrange wage claims of 20% to 30% and warned that the peak union council had already started planning a wages campaign for double digit pay rises. Politicians have quailed before smaller and less well-organised minorities.

[446] The OECD had published several times on the topic: eg the 1993 OECD paper, *Employment/unemployment Study: Interim Report by the Secretary-General.*

Labour relations had, however, long been central to Howard's reformist credentials and as recently as 1992 he had announced an industrial relations policy that provided for:

- removal of restrictions on working hours;
- an end to compulsory arbitration;
- termination of awards except where the parties agree to be bound by them; and
- voluntary membership of organisations. This last would be made effective by ending closed shops and abolishing union preference clauses, minimum numbers of union members, and the 'conveniently belong' provisions of awards that protect existing unions from effective competition.

He had watered this down during the 1996 campaign by promising that law would disallow workplace agreements that contracted a lower hourly pay rate than the relevant award. Dries were extremely unhappy with this compromise. However, the right to negotiate away wasteful employment conditions for higher remuneration remained and, chastened by the fate of *Fightback*, most of us held our tongues and stilled our pens.

Following the election, Kelty failed to deliver the promised industrial mayhem but there was, nevertheless, no chance of getting more reform than had been in the policy that the Coalition had taken to the people. It was to achieve much less. Peter Reith carried the *Workplace Relations Bill* – a complicated document of over 300 pages – in the House of Representatives, but Labor in the Senate opposed it. To secure its passage he needed the support of the Democrats.

In spite of the Coalition's standing being very high, a fact underlined by a by-election in Lindsay, the Government, choosing to negotiate with the Democrats led by Cheryl Kernot, conceded much of its remaining job liberalisation program. Negotiation saw the passage in November 1996 of legislation that reduced the reach of the 3200 Federal awards to 20 allowable matters. The legislation provided for 'workplace agreements' that would be voluntarily entered, that is individual or group contracts between employees and employers to cover all other matters. HR Nicholls Society members dubbed it the Reith-Kernot Act.

Cheryl Kernot announced that she did not believe the legislation as amended would reduce unemployment.[447] Reith did not agree with her, but many Dries thought that, because the unemployed were largely prevented from competing by offering lower employment costs, she might be right. Nevertheless, to the extent that his legislation functioned as intended, involuntary unemployment would in theory be reduced. Dries generally had thought the Government MPs wimps and many said so. This was an issue of such moment that another election was warranted.

The ACTU had got what it wanted most, retention of the 'conveniently belong' clauses ensuring the continuing monopoly status of the registered trade unions. The Democrats' hypocrisy had been quite startling. They were given to protesting the sanctity of UN treaties and the 'conveniently belong' clause of our industrial law conflicted with Article 20 (2) of the Universal Declaration of Human Rights that affirms that 'Nobody may be compelled to belong to an organisation'. Further, since

[447] David Barnett, *John Howard*, Viking Press, 1997, p 768

the Coalition had gone to the people with a clear industrial relations policy and the Democrats had campaigned with the slogan 'Keep the Bastards Honest', the public might have expected the minor party to insist that the Government not deviate from its announced policy. It was presumably from shame that the Democrats later abandoned the slogan.

Workplace Agreements were to prove more effective than the Dries that Reith had consulted thought they could be. The subsequent fall in unemployment almost certainly had a structural element that should be credited to his legislation. The Government had, in the face of a recalcitrant Senate, tried. Its failure was of a different character from, for instance, its capitulation to the motor and textile companies and media barons.

The Government proceeded to negotiate individual agency agreements to cover its own employees and to sign workplace agreements with them. It tried to reform the unfair dismissal laws, which caused employers to be reluctant to offer employment lest they be prevented from dismissing unsatisfactory employees.

Peter Reith later attempted a second wave of industrial legislation he called *More Jobs Better Pay*. (The title was perhaps a bit too Smart Alec). Labor and Democrat Senators, who claimed to believe that it would cause incomes to become less equal, rejected it. Even if their contention were true of those already employed, many unemployed people would have found jobs with incomes much higher than the unemployment benefit. The defeat of the legislation had more to do with the preservation of trade union power, than income equality. Again Howard and Reith had tried.

The Australian waterfront was bedevilled by two monopolies – that of the Maritime Union of Australia (MUA) which exercises rigid control over the supply of labour and that of the stevedoring companies Patrick and P&O Ports that controlled the supply of services to ships. The one is maintained by the Federal award system; the other by an MUA-dominated closed shop and by State Governments that have leased the available wharf space for long terms to just two stevedoring companies.

When Peter Reith acquired responsibility for reform on the waterfront his standing had been dented by his failure to achieve New Zealand-style industrial relations reform more generally. On the waterfront too, what New Zealand had already done set the standard. Whereas it cost A$19 per tonne to load newsprint at Devonport and A$32 in Sydney, it cost only NZ$4 per tonne to load at Tauranga – an extreme but relevant case.

The difficulty of ending the MUA monopoly was made evident by the MUA's success with the aid of the International Transport Federation, in first bringing Freeport Mining to heel when that company had tried to employ non-union labour in Cairns, and then bringing the State of Dubai to heel when it tried to train Australian wharf labourers for Patrick Partners. It was a measure of public and media attitudes that there was barely a word of sympathy for the men who had invested their time in attempting to gain the necessary skills to enter legitimate employment.

The MUA was not, moreover, the only monopoly in need of Reith's attention. To achieve what New Zealand had achieved, he needed effective competition between ports and among stevedores. In Australia, work-place agreements provided employees and employers with the theoretical means to avoid the MUA monopoly, but the incentives to use them were inadequate.

Some modest progress was already in train. State Governments were reforming their port authorities. Unnecessary staff were being reduced; non-core functions were being contracted out or privatised; and, in Victoria, the ports at Geelong and Portland had been privatised. It was hoped that competition from Geelong, Portland and Westernport would have the same salutary effect on the Port of Melbourne that, following Thatcher's reforms, Felixstowe had had on the Port of London. Adelaide was keen to capture Victorian trade or at least hold what it had. Kwinana, if privatised or corporatised, could have given Fremantle a much-needed hurry-up. The standard-gauge rail link to Fisherman Islands would help the more competitive port of Brisbane compete with Sydney. Newcastle could certainly have taken cargo from Sydney. Tasmania had the choice of several ports. Only when whole ports may lose custom, do managements, stevedores, tugs and warehouses enjoying natural or unnatural monopolies have incentives to offer users cheaper handling and quicker turn-round.

The long, complex and bitter dispute conducted by the National Farmers' Federation and Patrick on the one hand and the MUA on the other at Webb Dock in the Port of Melbourne need not concern us here. It is sufficient to note that such a play was possible, there were people with the guts to conduct it, and that at its end the water-front was still inefficient and unjust but less so. Private players had achieved such reform as was achieved but Reith had made their play possible and encouraged it. Productivity at some terminals was doubled but the MUA retained control.

In 1995, the Industry Commission had criticised the practice of protecting the Australian coastal trade from vessels plying internationally. Although the Coalition in Opposition had favoured ending cabotage protection, in Government it failed to do so.[448]

Tired of belting his head against a wall Peter Reith retreated to the Defence Portfolio and then in 2001 announced his retirement. Later, the HR Nichols Society, an organisation not noted for charitable acceptance of Ministerial failure, appreciatively voted thanks to Reith with a speech that concluded:

> And on any fair view, Peter Reith stands head and shoulders above those who had gone before. He has been the best Minister of the last 50 years. We will miss him.

Protection

David Barnett wrote that the Treasury brief to the new Government 'estimated that reform to the electricity and gas industries, to telecommunications, to waterfront and shipping, to the railways, to the provision of water, and to the 'unincorporated sector' (mostly the professions), could add 3% to GDP'.[449] Barnett does not tell us over what

[448] Snape, Gropp and Luttrell, Australian Trade Policy 1965-1997, Allen & Unwin, 1998, p. 308

[449] David Barnett, *John Howard*, Viking Press, 1997, p 748

time, but Treasury was acquainting the incoming Government with some of its more important obligations.

Howard, however, appointed John Moore, who was at heart a mercantilist and one of the Gang of Five who had once thrust the political knife into his back, to the industry portfolio. Why?

The Industry Commission, the Economic Planning Advisory Commission and the Bureau of Industry Economics were combined into the Productivity Commission. Although I was inherently suspicious of any attempt to meddle with the Industry Commission, when he was in Opposition, Howard had mentioned to me that he was contemplating this and I could think of no objection. In the event, the arrangement seems to have worked well, addressing not just border protection but also barriers to economic freedom within the nation.

The Government abolished the sugar tariff but backed down to vested interests when it extended the shipbuilding bounty. Although not in itself very significant, the decision augured ill for micro-economic reform in general. So it was to prove with the big issues, textiles, clothing and footwear and motor vehicles. Howard, who had made much of his concern for small businesses, did not, when he had the opportunity, lift the burden of over-priced vehicles from them – he increased it. Neither did he lift the burden of over-priced textiles, clothing and footwear from his 'battlers' – he increased that too.

In August 1996, Moore pre-empted a Cabinet decision by telling Channel Nine's *Sunday* program that Australia's schedule of tariff cuts and other trade reforms should to be linked to reciprocal tariff reductions and better market access from our main trading partners. He further complained that Australia had reduced its tariff barriers faster than some South-East Asian trading partners had and said that the motor industry should be a special case exempted from the APEC targets.

Moore should have known that tariff and other trade reforms were not favours granted to other nations but the advantage of an efficient economy rendered to Australians. Surely he knew that excepting one of our industries would virtually ensure that APEC would fail. His actions and reversion to the mercantilist rhetoric of a former time were redolent of McEwenism.

Nothing in Howard's first Prime Ministership appalled Dries more than the sight of him flanked by the gleeful executives of the car companies following his rejection of the Industry Commission's 1997 report on the motor industry. It was so reminiscent of Hawke flanked by Packer and Bond at the time of the equally unethical television carve-up that the Liberals had rightly condemned.

In June 1997 the Industry Commission completed its final report on the automotive industry. Labor had reduced the tariff on cars from 57.5% to 22.5% reducing to 15% by 2000, still three times the protection available to other protected industries. The interim report released six months before had recommended that the tariff continue to be reduced at the rate of 2.5% per year until it reached 5%. The Government nevertheless struck a corporatist deal with the car companies to allow the current regime to continue to 2000 but freeze the tariff at 15% from then until 2005 with

reduction to 10% at that date. The deal promised a review in 2005 that would 'take into account … APEC commitments and progress on market access'.[450] If its rhetoric was believable, Cabinet had returned to pre-Hawke and pre-Hewson mercantilist mindset. Australians were to be denied the big advantages of using their own resources efficiently unless other countries gave us the much more modest advantage of market access.

On the other hand, if Government Whip Neil Andrew's reply to me explaining his refusal to circulate my particularly bitchy note on the topic to Government MPs is to be believed, the reason was simply political funk. (Andrew held Bert Kelly's seat of Wakefield.) Dry MPs, who included many of Howard's personal backers, had won the issue in the party room and then been double-crossed when Howard gave in to the car companies. I argued in the *Courier Mail* and the *Sunday Times* that they should feel free to call for a division in the House or Senate as others had done over airline deregulation. Because Labor would have voted with the Government, they would not have won it; but when usually loyal supporters defy the whips Prime Ministers are wont to notice. Howard, when he had been Fraser's Treasurer, (with the overt support of only Durack and Chaney) had led the charge in Cabinet to achieve a more liberal motor vehicle policy. Bitterly I misquoted Browning:

> Just for a handful of *votes* he left us,
> Just for a riband to stick in his coat.

My reply to Andrew reflected my frame of mind:

> Dear Neil,
> It is very proper that you should decline to circulate my letter. Your defence of the motor car decision is not as well based, however.
>
> Yes, the 'political dynamics' had changed dramatically. It had changed so dramatically that not even the MTIA is now prepared to advocate protection. The Opposition behaved badly. Kennett behaved badly. Olson behaved worse. What's new? As for the press: it is now quite rightly portraying the Government as piss-weak.
>
> Australia should not be governed by the Premiers of two States, the Opposition or certainly not by four foreign-owned companies. Howard has, therefore, changed the political dynamics for the worse. Now that everyone knows that this Government can be prevailed upon by vested interests, the Prime Minister has before him the task of re-establishing his authority.
>
> You will I am sure make an excellent whip. Congratulations, you have already progressed further than I did.
>
> Best wishes,

Although Howard was to try hard with tax reform, I do not believe he did re-establish his authority until 2001.

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[450] Snape, Gropp and Luttrell, *Australian Trade Policy 1965-1997*, Allen & Unwin, 1998, p 32

In short order, he had blocked foreign doctors, reduced immigration and extended the highly selective tax on motor car imports. To claim credit for investment by Toyota, which had decided to put a new assembly-for-export plant at Altona before Howard came to office, the Prime Minister employed the same mercantilist arguments for which he had shortly before condemned Pauline Hanson. His xenophobia invited and received comparison with her xenophobia. His worst sin, however, was that of re-establishing the client state whereby a fearful and unprincipled Government dispenses privileges to those clients capable of threatening or bribing it. The ground gained against clientism under the Hawke administrations was being squandered and the liberal principle of equal treatment in law degraded by political opportunism.

The Government's record was not improved by the textile, clothing and footwear industry decision. Contrary to Industry Commission advice, the Government allowed the tariff to fall to 17.5% by 2000 but froze it at that level until 2005 when it would be reviewed in the light of the APEC commitment to free trade by 2010.

The Howard Governments also rejected recommendations of the Productivity Commission and the National Competition Council when protecting chemists, newsagents, pork producers, digital television and Australia Post's monopoly from competition. Although Howard was shifting gently toward one class of Australian in matters of race and employment he was again creating privileged groups within industry. Justification was again being found in mercantilist arguments based upon what other nations did. Australia was again prepared to cut off its nose to spite its face. Dry argument had lost ground since the heady days of Hawke's March 1991 'Garnaut Response' and Fightback.

The Howard Government stalled upon implementation of the Bogor Agreement to reduce tariffs under APEC auspices stating that it will not go further without 'clear evidence that [other countries] … address what interests us'.[451] Again it was the lapse into mercantilist thought that was the most worrying. The Government seemed not to understand that the nations that had prospered were not those with broad-based consumption taxes, beneficial as those may be, but those with open economies. Nevertheless, during the 1990s, as a consequence of a program of phased reductions, protection continued downwards, so that between 1991–92 and 2000–01 manufacturing effective-rate protection was reduced from 14 per cent to 5 per cent, and agricultural from 12 per cent to 6 per cent in 1999–2000. Despite Howard's backsliding, by 2001, Australian levels of protection were a whisker less than those of the United States[452] – a remarkable achievement that had to be credited to Hawke and Keating. Of course, as we are a smaller economy than the US with less opportunity for internal trade, our trade barriers still do us greater injury than US barriers do to the US citizen.

Labor too had meanwhile abandoned its free-trade stance, adopting policies that were as mercantilist as those of the Government, if not more so. When in the 1996 budget

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[451] Snape, Gropp and Luttrell, *Australian Trade Policy 1965-1997*, Allen & Unwin, 1998, p. 469

[452] Charles Bean, *Australia's Economic 'Miracle'; a View from the North*, Reserve Bank of Australia

the Government tried to end the bounty paid to computer manufacturers its legislation was defeated in the Senate.

When the Howard Government removed protection from compact discs Australia's future did not turn on the decision, but Dries greeted it with relief. Howard, who had rolled over much too readily to vested interests in the shipbuilding, motor, textile, nursing home, and medical industries, had at last taken on a highly articulate vested interest. In its second term, mindful of the need for Australian producers to stay abreast of technologies employed by foreign competitors, it also did what it could to resist attempts to have genetically-modified organisms banned.

Greenhouse

At the 1988 Toronto Conference, when greenhouse worries had greatest momentum, human activity was estimated to cause average temperatures to rise by 3.0^{o} C by 2030. By the Kyoto Conference in 1997 the estimate had become 0.8^{o} C. The new estimate did not rule out a serious long-term problem but it did not indicate a crisis – there would be time to react if necessary. Satellite measurements show atmospheric temperatures to have risen by only 0.06 degrees in the 22 years to 2001.[453]

The Framework Convention on Climate Change (FCCC) Article 4.2 had called upon all developed nations to limit man-made emissions of green-house gasses 'taking into account the differences of these parties' starting points and approaches, economic structures and resource bases, the need to maintain strong and sustainable economic growth, available technologies and other individual circumstances'. The convention was non-binding but it had considerable moral force. When the world 'leaders' met in Kyoto, on pain of achieving nothing, they were compelled to evaluate proposals that were mutually exclusive and self-serving.

The Europeans had dreamed up the 'EU Bubble'. It obliged the European Union to reduce green-house emissions only as a whole, allowing Portugal, Spain and Greece to increase emissions by taking advantage of Britain's conversion from coal to North Sea Gas for economic reasons and Germany's closure of dirty and inefficient East German industry. If across-the-board greenhouse gas reductions were enforced upon developed nations and Europe were allowed its 'bubble', then, without comparable cost to itself, Europe would become a relatively more attractive place in which to invest than the United States, Japan or Australasia. It will not concern Europeans if in future they must buy aluminium from, say, India instead of Australia.

Before the Kyoto Conference, drawing on the work it had done on the consequences of trade barriers, the Australian Bureau of Agricultural and Resource Economics estimated the net present value of the welfare losses to several countries of adopting the proposal on the table. It estimated that Australians would lose A$9-10,000 each spread over several years and that, because we are large exporters of energy intensive products, among all countries, we would fare worst. No Government would deliberately impose welfare losses of that order on its people and the Australian Government, at times standing alone against hysteria, negotiated a better deal for Australia than that on offer. Nevertheless, like most other Western nations, Australia may yet meet the 'targets' only by resort to sophistry.

[453] Information supplied by The Lavoisier Group Inc.

It so happens that organisations such as Greanpeace get most of their funds from within the European Union member states. It so happens that Greenpeace has not yet addressed such environmental problems as the groundwater pollution that results from the heavy use of fertilisers that the Common Agricultural Policy encourages. Maybe it also so happens that these things are entirely coincidental. The Australian Government was obliged to make sure that we were not being taken for a ride.

Privatisation

Howard continued Labor's practice of privatising public assets and with the sale of one third of Telstra many Australians became shareholders for the first time. $8.5 billion of the proceeds were used to retire debt and $1.5 billion became a fund for environmental good-works including the restoration of farmland – to bribe the Green movement and environmentally-minded Senators. The politicians knew well enough that farmers and environmentalists with their snouts in a trough containing $1.5 billion would gorge themselves and be none too careful about spillage. However, by what criterion can it be said that a more efficient Telstra, less debt, some environmental gain and the hope of votes was not an adequate trade-off? I think many Dries were privately horrified by the prospect of the waste of much of the $1.5 billion, but what could they say? – not that telecommunications, which are 5% of GDP with much of it in Telstra's hands, did not need the continuing market discipline that only privatisation could offer.

When legislation to sell one third of the telecommunications giant passed the Senate with the support of two independents, Dries gave two cheers. They would have preferred the commercial giant to be broken into potentially competitive elements before sale. Such was union influence in the Senate that it is doubtful whether the Government could have achieved this. That is, unless, along with something more popular such as labour market reform, it had been prepared to make the issue grounds for a Double Dissolution election.

The *Telecommunications Act 1997* removed many of the privileges enjoyed by carriers making them subject to general competition law. Of particular importance, it ended arrangements by which only two players were permitted to offer fixed-line communications and only three to offer mobile telephony. Although, because of the dominance of Telstra, Australians would not for the foreseeable future enjoy an adequately competitive market, the customer was much better served than before the deregulation. The Productivity Commission informs us:

> Over the same period, prices have fallen for all services – particularly the most competitive services, such as long distance and mobile services.[454]

Telstra employees would not today enter my farm to destroy three trees that had been preserved for two generations, and I would not today wait eight weeks for a city phone connection.

In 1999 the Government sold a further 17% of Telstra by public subscription but, faced with hysteria in the bush, nervousness in the National Party and Opposition in the Senate, it could not reduce public ownership below 50%.

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[454] Productivity Commission, *Telecommunications Competition Regulation, Draft Report,* 2001, p xxii

David Kemp privatised the Commonwealth Employment Service in 1998 replacing it with the *Job Network* system by which competing private and public-sector contractors matched jobs to applicants. This was a complex and innovative exercise without overseas precedent and much was made of the new system's teething problems. Nevertheless, improved success in placing job-applicants soon became impossible to deny truthfully. Whether it was as successful in creating 'social capital' as Minister Tony Abbott was to claim cannot be measured, ut it did involve local communities in successful activity. Three years and a changed Minister later, Abbott had the confidence to assert 'The Government has no intention of re-regulating employment services, telling *Job Network* members how to run their programs or moving away from payment by results.'[455]

Mutual Obligation

The Howard Government's want of resolve when faced with the special pleading of business interests contrasted with its approach to welfare. Its *Mutual Obligation* policy was in concept and design like the UK Labour Government's *New Deal* program which had been influenced by Clinton's welfare reforms. These in turn seem to have been informed by a 1987 Report, *The New Consensus on Family and Welfare*, published by the American Enterprise Institute.[456] This begun by asking why some people climbed out of poverty and found that those who left poverty were people who had had the benefit of families, churches and other voluntary organisations that encouraged without compelling such tried-and-tested means of self-improvement as acceptance of personal responsibility and integrity. It advocated trying to develop the ideals of self-reliance and community; and it drew for its imagery of cooperation and personal effort upon American pioneering history that is not unlike our own.[457] Howard was probably also influenced by a CIS discussion of behavioural poverty, *The Welfare State: Foundation and Alternatives*, published in 1989.[458]

Mutual Obligation was directed at both rules and culture. The 'obligation' intended was clearly 'moral obligation' and it bound both the Government and the welfare recipient. It was 'leadership' that accorded with popular notions of the 'fair go' and commanded about 80% public support.

The nature, if not the quantum, of the more immediate economic costs of the welfare state was pretty much agreed. Access to welfare induces people not to work. High taxes arguably discourage activity and they certainly encourage people to devote considerable resources to tax avoidance. By providing alternative insurance against old age, unemployment and sickness, welfare discourages saving. These costs were,

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[455] The Hon Tony Abbott MP, *Job Network: Where to next?,* Speech to the Wesley Mission, 2000

[456] Novak, M *et al, The New Consensus on Family and Welfare*, Washington: American Enterprise Institute, 1987.

[457] Green, David, *Poverty and Benefit Dependency*, New Zealand Business Round Table, 2001

[458] *The Welfare State: Foundations and Alternatives*, The proceedings of CIS Conferences held in Wellington and Sydney, November 1987, CIS Policy Forums 7, 1989

however, borne because we did not wish anyone – at least not anyone within sight and mind – to live a miserable existence for want of physical resources.

By the time that Howard came to office Labor had attempted to target the affordable budget upon those most in need with asset tests, tighter administrative rules and reduced eligibility for teenagers. It had, however, yielded to sectional pressure, to provide publicly-funded childcare and healthcare for those who could afford to pay.

Welfare systems are inherently difficult to design. In 1999 a single person could receive unemployment benefit of just over $400 per fortnight, and a married man with two children just over $800 per fortnight. The latter was very little, if at all, better off in cash after taking work. For both, the hassle of working could outweigh the deprivations of not working. Unemployment was high but employers struggled to find entry-level staff. Tony Abbott, addressing the CIS in 2000 said:

> Why might a generous welfare safety net designed to help people on the dole coupled with wage restraint designed to boost jobs turn out to make unemployment worse? Because for many people working has become more trouble than its worth.[459]

Nevertheless, but for the increasing evidence that the welfare state was not actually reducing the sum of human misery and probably adding to it, the economic costs would have been borne with only marginal adjustments. When the Aboriginal activist, Noel Pearson, courageously explained how 'passive welfare' was destroying indigenous communities he spoke for all communities.

> You put any group of people in a condition of overwhelming reliance upon passive welfare support and within three decades you will get the same social results that my people in the Cape York Peninsula currently endure.[460]

That the welfare state had been associated with increased unemployment, drug dependency, youth suicide and children without contact with their fathers was beyond reasonable question. That it is the significant cause of the increase of these ills defies proof, but circumstantial evidence that it does is powerful. By the 1990s, many studies, some employing huge databases, had alerted the Western World to the growth of a 'welfare underclass'. Welfare is never easy politics. With sufficient hindsight nothing may reflect greater credit on Howard's Prime Ministership than his attempt to confront its difficulties, but the task is almost entirely before the nation.

Cases are made that welfare would be more justly, humanely and efficiently distributed with fewer perverse side effects if left entirely to private, voluntary charity. This policy position is, however, too scary to have much immediate relevance – nobody wants to run the risk of children starving because he has misjudged the efficacy of such a system. Therefore, despite wide disagreement about how, at what level and for whom it should be maintained, the need for Government provision of a welfare 'safety net' has near universal acceptance. Nevertheless, the warnings of the libertarians about its consequences deserved an earlier hearing.

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[459] Tony Abbott, *Mutual Obligation and the Social Fabric,* A Bert Kelly Lecture, 3 August 2000

[460] Noel Pearson, *The Charles Perkins Memorial Oration* and *On the Human Right to Misery, Mass Incarceration and Early Death,* Quadrant, December 2001, p 9.

By the 1990s, concern that the welfare safety net was encouraging the very problems it was intended to alleviate had begun to influence welfare reform in the US, the UK and elsewhere. Frank Field, who had been Social Security Minister in the Blair Government in Britain, drew attention to the effect of welfare on honesty. He called for a more personal, less statist approach based on mutual aid, reminding us that compassion should not be measured by the size of the social security budget but by the opportunities created for the poor. He argued that attempts to dispense social assistance that did not go with the grain of human nature and did not work with the desire to improve our conditions and ourselves were bound to end in failure. He echoed Adam Smith.

In Australia, Howard and Ministers David Kemp, Tony Abbott and Jocelyn Newman began to go with Field's grain of human nature. Welfare dependency had increased while real-terms welfare expenditure had increased almost fivefold since 1960. Australians had become so 'unhealthy' that 3% of the population relied on disability pensions – a proportion that was increasing by about .01% annually. The incidence of 'serious crime' had risen two-and-a-half times since the 1960s. Father absent families and drug dependency had both increased. The unemployment rate was three times higher than at the end of the 1960s. And Aboriginal health and life expectancy had barely improved.

The rise and rise of a complaining class, nurturing grievances and courting the status of victims, would also have concerned any thoughtful and conscientious leaders. What had happened to pride in shrugging off life's vicissitudes? Were the children of the souls who had pioneered and defended the nation more inclined than their parents to blame others for the consequences of their own greed, selfishness, stupidity, carelessness or laziness? What was happening to a nation where 'battler' had ceased to be a term of honour reserved for those who refused to be dominated by adversity?

The Ministers clearly suspected that these changes were associated with cultural changes that had de-emphasised personal responsibility and, although rarely quoting the overseas studies that lent considerable weight to the assertion, they said so. Thus they began the long task of changing attitudes to dependency, directing their arguments to those who should give as well as to those who take.

The is more to the story, but it is the case that when new social mores and aggressive political correctness had denied the legitimacy of moral judgements against the feckless and the grasping, Australians had then passed to the Government their moral duty to less well-placed people, particularly strangers. A vicious circle was thus entered. Communities – the 'little platoons' commended by Edmund Burke and recently in Australia by the CIS – withered and alienation akin to that of which Marx had warned grew. It was, however, not the alienation of the workers but of those whom Government planners had excluded from the capitalist system. With the decline of small communities, society lost not just the best providers of 'welfare' but also the best upholders of the institutions that make social interaction possible.

Howard sought a welfare system that had fewer untoward side effects while still giving access to the genuinely needy. Hope lay with the little platoons but how were they to be activated without going all the way with the libertarians? Although other national and sub-national Governments were concurrently addressing the same

problem there was, as yet, no policy blueprint. To go with the grain of human nature, administration needed to be more discriminating, and to discriminate with the grain of variable circumstances it needed to be more personal and more flexible. However, Governments that compromise impersonal and inflexible rules – equality before the law – invite their own corruption. Small social organisations had to be given (given back) authority but within what framework of over-arching rules? Dries, to this point, had been better at identifying the difficulties than the solutions. Some mistakes were inevitable.

The Government was not long in finding evidence of how weak the felt obligation to deal honestly with its rules had become. When it established *Job Network* to assist the unemployed, 260,000 'job-seekers' failed to link with a *Job Network* member. When 18 to 24 year olds on unemployment benefits for six months or more were required to undertake structured activity as a condition of staying on benefits, fewer young people registered as unemployed and the program had to be scaled back from 130,000 to 80,000. At one point, of 42,000 who had signed an agreement to undertake an activity, less than 28,000 were found to be actually doing it.[461] Tony Abbott had this to say:

> This isn't really the jobseekers' fault. They are victims of a culture of entitlement which came into existence at roughly the same time unemployment became entrenched. For most of the 80s and 90s, the interaction of static real wages in many low-skill occupations coupled with indexed welfare benefits plus the debilitating experience of long-term unemployment itself helped to create an unemployment sub-culture of people who want to work – but only on their own terms.[462]

With ease that was thought impossible when the Fraser Government had toyed with work-for-the-dole, the Howard Government faced down opposition. Predictably, it was accused of 'punishing the victim' but 91% of the population supported this policy.[463] Further, it was virtually without complaint that eligibility criteria for the unemployment benefit were further tightened, saving the taxpayer about $50 million per week. As unemployment became less attractive, its level fell. There were, of course, other reasons for its decline, industrial relations law reform and economic growth, but welfare reform had contributed.

The Government commissioned Patrick McClure, CEO of Mission Australia, to report upon and recommend further reform. In August 2000, noting that 40% of people on unemployment benefit in September 1995 were again on benefit in June 1999,[464] McClure reported against five objectives: individualised service delivery, simpler income support, better financial incentives and assistance, 'mutual obligation', and the need to foster social partnerships.

His report was throughout a discussion of mutual obligation. It called on the Government to develop a model for mutual obligations that:

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[461] The Hon Tony Abbott MP, *Beyond the Unemployment Pieties,* Speech to CEDA, 1999
[462] ibid
[463] The Hon Tony Abbott MP, *Beyond Ideology*, Speech to Young Liberals, 2001
[464] The Hon Tony Abbott MP, *Against Roonism – Combating the Culture of Despair,* Speech to the Sydney Institute, 2001

- Emphasised the expectation that welfare recipients undertake some form of economic or social participation, consistent with their individual capacities and life circumstances.
- Incorporated both a set of broad expectations and a set of minimum requirements (reflected in legislation), which should be developed with consultation to ensure expectations and requirements reflect community norms and values.
- Is implemented in a way that maximises voluntary compliance and provides that alternative approaches to sanctions are considered before financial penalties are imposed.

The need for attitudinal change – the building of a 'participation society' – was implicit in the recommendation to develop an overarching framework that incorporated the respective roles of Government, business, communities and individuals. McClure recommended policy changes to reduce the disincentives people face in seeking employment, some of them with high initial budgetary cost.

The Report was unusually well received by all political parties. If somebody will 'run with it', it should afford the opportunity for a significant shift in the parameters of public debate. Alternatively, if ordinary shame-feeling people are told that their own anti-social behaviour is not their own fault, they will be prone to welcome easy absolution from personal responsibility. Howard and his Ministers were attempting to lead opinion, that is to build society's 'internal institutions' but, as the 2001 election approached, their enthusiasm waned. Leadership is not, however, a task for politicians alone and in Abbott's words again 'an entrenched entitlement mentality could take years to shift'.[465]. The Government began the first of the necessary legislative changes in 2001.

Aborigines

Howard's often expressed belief in national unity, stated in his Headland Speeches as 'a united community, not an aggregation of separate interest groups', was bound to run foul of Aboriginal demands for the collective rights that some sought to enshrine in a treaty. Guided in detail by Aboriginal affairs minister, John Heron, his Government, eschewed 'symbolic gestures' to concentrate on the individual rights and needs of Aborigines, many of whom lived in appalling conditions in communities destroyed by alcohol, petrol sniffing, graft and domestic violence. This essentially liberal agenda was not welcomed by some Aboriginal elites who vilified Howard. Nevertheless, by 2002, a change in the attitudes of some of these had been effected. Several Aboriginal leaders are on record reflecting aspects the change. John Ah Kit, an Aboriginal Minister in the Northern Territory Government, is illustrative:

> It is 'almost impossible to find a functioning Aboriginal community' in the Territory.

And asked about a Government plan to address Aboriginal welfare:

> It is [Howard's] agenda and our agenda is obviously about collective rights. There is a chasm there that is pretty wide, but we would like to keep the dialogue going.

[465] The Hon Tony Abbott MP, *Mutual Obligation and the Social Fabric,* Bert Kelly Lecture to the CIS , 2000

The task of actually reducing the violence and welfare dependency among Aborigines is even further from accomplishment than it is in the wider community, but the Government has won some Aboriginal support for the principles of 'mutual obligation' and the McClure Report. In place of the language of victimhood, some Aboriginal leaders are employing that of responsibility and several more are calling for the writ of the rule of law to run within Aboriginal communities. Of course the jury is out and will remain so for long to come, but the attitudinal change is potentially momentous. In bringing others to it Heron and Howard led, and those courageous Aborigines who saw wisdom in what they advocated and gave it such public support as they thought due were also leaders.

Many of the Aboriginal issues that bedevilled the Howard Governments, such as the demand that he apologise to Aborigines on behalf of the Australian people, were symbolic, but native title was both material and substantial. Before introducing the *Native Title Act 1993*, Keating had made a deal with some prominent Aboriginal Australians limiting the area subject to Aboriginal land claims to about 38% of the national land area and excluding pastoral leases. When the Wik judgement by four to three increased the area potentially subject to native title to 78% of the continent, aboriginal claimants lodged claims as though the deal had not been struck. They were, of course, under neither legal nor moral obligation to be bound by 'representatives' who had had no authority to commit them. The 78% was almost exclusively that part of Australia with least market value but important to the mining and pastoral industries.

Aboriginal spokesmen had conceded validation of pastoral leases issued after 1975 in exchange for a 'right to negotiate' on proposed mining tenements or compulsory acquisitions benefiting third parties. This gave native-title holders and potential native-title claimants the power to say credibly, 'Cut us in or you'll never start'. Employing a not unreasonable 8% discount rate, an immediate benefit of, say $10 million is worth only $7.8 million if delayed three years. By 1997, native title application held up over 1700 applications for mining leases in Western Australia alone and larger companies began expending more of their exploration budgets overseas.

It bears repeating that blaming Aborigines for these economic losses is unfair. Whites are no less prone to use bad law for rent-seeking. The dead-weight cost associated with protecting the motor industry is of a similar order of magnitude and more difficult to defend as a special case.

With monumental incompetence, the judges had waded into law-making that should have been left to parliamentarians. Their Honours 'discovered' a non-tradeable property right that lacked definition as to both extent and ownership and could not participate in the economy in the normal way to the benefit of either the title-holders or those who wished to trade with them. The judges who made up the majorities in the Mabo 2 and Wik decisions seem not to have considered even the most basic tenets of property rights theory. They cannot have considered the failure of the *Aboriginal Land Rights (Northern Territory) Act* – the politicians' error – to provide Aborigines with benefits commensurate with the economic costs. The judges' law-making attracted criticism of a type more often directed to politicians. Instead of treating this as a necessary feature of an open society, they demanded that the Attorney General

defend them. Sensibly, he declined. The cost of not challenging any authority is the likelihood of decisions based on whim, prejudice and wishful thinking. Bagging judges is a public duty for the same reason that bagging politicians is.

Lawyers' inability to understand even fundamental accounting principles is notorious, as is their inability to grasp even fundamental economics but the real problem is the judicial function itself that provides no means for assessing social and economic ramifications. Law is best made by people better able than are judges to take into account diverse interests, attitudes and constraints, and with stronger incentives to reflect them. In democracies, parliamentary law-makers gain the appropriate incentive to reflect community aspirations and their authority by being eminently sackable.

Judges, however, made the common law and it is generally agreed to be wise law. Its genius derives not from individual judges, great as some were, but from a system that allowed bad decisions to be reversed in subsequent parallel cases (and sometimes on appeal) and with a strong tradition by which judges relied on precedent, changing the common law only by successive small increments. Thus the common law grew as the sum of the incremental application of what Justice Owen Dixon referred to as 'strict logic and high technique' over a long time.

But for that strong tradition, the expression 'rule of law' would be empty. The incremental changes that survived to be built upon – many did not – were, as Justice Oliver Wendell Holmes (Jnr.) put it, those that were 'understood to be convenient'. Like economies and ecosystems, the common law is the consequence of keeping what was convenient and abandoning what was not, but only by such small steps that people (and, in the case of ecosystems, species) could enjoy stable environments. The High Court judges were bagged for making huge leaps that undermined people's confidence in stable rules by which to invest their time and their capital – that is, for creating 'sovereign risk'.

Further, many of the judges' critics supported the liberal view that the law should not recognize rights based on race. I am, therefore, not persuaded that the majority decision in Mabo 2, that Aborigines have rights that are not available to people of other races, is good law.

Not only did the Mabo decision change the law radically without sound legal reason for doing so, it effectively constitutionalised the change making it impossible for parliaments to reverse or substantially modify it. Even had it wished to do so, the Howard Government could not extinguish those native-title property-rights that impaired development without the probability of unaffordable compensation claims.

Nevertheless, because the judges had 'discovered' a land title that was uncertain, the parliament was faced with clarifying it. The Keating Government had begun that process with the *Native Title Act 1993*, stating in the Second Reading Speech:

> The Governments view [is that] … under common law, past valid freehold and leasehold grants extinguish native title. There is therefore no obstacle or hindrance to the renewal of pastoral leases in the future…

The 'right to negotiate', however, had caused further problems.

When in December 1996 Their Honours discovered that pastoral leases did not necessarily extinguish native title, Australia could not afford the economic costs and consequent inter-racial rancour that native title was causing. Howard had no option but to try to find a compromise which, though it might be nobody's ideal, was acceptable to most.

Aspects of his proposal were opposed in the Senate until an acceptable package came to turn on Senator Haradine's vote on 'the right to negotiate'. Neither Howard nor Haradine wanted a double-dissolution election during which race would be a prominent issue. Also, at that time, such an election would almost certainly have seen the election of several One Nation Senators who exploited the uncertainties created by the High Court. Eventually a compromise was reached that raised the threshold for applicants claiming the right to negotiate, making vexatious or futile claims more difficult to promote, protected primary production on pastoral leases and, provided for more rapid processing. It was in many ways an unsatisfactory outcome but one that approximated the best that divided opinion could achieve.

Education and Health

No Government activity so obviously transfers more wealth from relatively poor people to those who will enjoy high lifetime incomes than does free tertiary education. Bachelor's degrees of any sort must add $20,000 to the annual incomes of those who own them and a medical degree must have a capital value of at least $1 million. In 1996-97 Universities were allowed to charge differential course fees related to the cost of provision[466] and the West Committee was charged with developing a comprehensive policy framework for higher education.[467] Later, when Education Minister, David Kemp came up with a user-pays-a-little-bit-more policy towards real reform of the universities, the Cabinet submission was leaked. University students are predictable, but, without a fight, the Howard Government yielded to this privileged minority.

In contrast, however, Kemp achieved significant improvement to the funding of private secondary education by tying the Commonwealth's share of the money going to schools inversely to the wealth of the populations from which they drew their pupils. This measure falls well short of the dry ideal of a voucher or other per-capita school-funding arrangement that takes account of parental capacity to pay but it goes some way towards increasing parental choice of school for less wealthy families and was within the capacity of the budget. The reform was significant.

By the end of the 1990s it was becoming evident that private health insurance system was unsustainable. Its injustices and economic inefficiencies had been known at least since 1975 when Fraser had promised to abolish Medibank. Nevertheless, community rating and Medicare were supported as supposedly integral parts of a system that guaranteed that nobody would be denied health care for reasons of inability to pay.

The healthy and those without children opted out of the funds to escape community rating that charged them higher premiums than their risk warranted. Then, left with

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[466] Snape, Gropp and Luttrell, Australian Trade Policy 1965-1997, Allen & Unwin, 1998, p. 296 footnote

[467] ibid, p. 326

ever-higher proportions of bad risks, the funds had had no option but to increase their premiums, which in turn drove more low-risk people away to the 'free' basic health-care offered by Medicare. People who had privately insured for much of their lives subsidised those who had not.

Against this background, in 1997, the Government increased the Medicare levy for families with incomes over $100,000 p.a. and provided premium cuts or tax rebates for families with incomes under $70,000. In 1999 at a budgetary cost of around $2 billion it replaced the 1997 means-tested cuts or rebates with a 30% rebate of hospital and ancillary cover regardless of income. Finally, in 2000 it authorised the funds to surcharge people who joined after the age of 35 encouraging what it somewhat euphemistically called 'lifetime health cover'. These measures went some way towards addressing the injustice and it lifted the proportion of the public with private health cover from 31% back to 45% -- the proportion it had been at the beginning of the nineties.[468] They did not, however, address the underlying problems of community rating, free not-means-tested access to Medicare, effective restrictions upon the supply of doctors and innovation-stifling regulation.

Media

The media moguls had often enjoyed the favour of Governments. However, the March 1998 announcement was particularly blatant. It gave them $600 million worth of broadcast spectrum, 250% more than they needed to introduce digital TV; put an effective moratorium on new TV entrants until 2007; and further prevented competition by tying up nearly all the available spectrum for high-definition TV that nobody wanted. The public that got 3 commercial channels instead of the possibility of about 12. The decision again reflected the know-all 'picking of winners' and commercial favouritism that had gone out of fashion during the 1980s. The policy was principally run from Howard's office when he took over the politics of the issue from the Communications Minister.

Arthur Phillips used the term 'Cultural cringe' in an essay of that title in 1950 and it had entered Australian received wisdom by the 1960s as 'an unthinking admiration of everything foreign (especially English) which precluded respect for any excellence that might be found at home'.[469] In that form it probably never did exist. A quarter a century later, however, fear that the home product was not good enough to compete with everything foreign (especially American) or that the local population was not smart enough to discriminate, ostensibly shaped regulation of the electronic media. If the Government really believed its own rhetoric, then the corollary that it also believed that Australian viewers should not be permitted to choose their own TV and radio programs was inescapable. It was not that Australians were being protected from voyeuristic sex and violence which current programs had aplenty. There was a more prosaic explanation.

The rules that impose 55% local content on commercial television programs and require 80% of advertising to be Australian made are merely another capitulation to organised vested interests – a form of protectionism. Quite other rules were required

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[468] *The Australian Financial Review*, 22 August 2001, p 55

[469] L.J. Hume, *Another Look at the Cultural Cringe,* Centre for Independent Studies, 1993, p. 1

to maintain Australian standards. These local content rules are no more justifiable than the now discredited and abandoned 85% local content rule that once applied to motor cars. Nevertheless the Government rejected the Productivity Commission's findings without even waiting for its final report.

There is, however, the prospect that leisure-time viewing will become available from the Internet, undermining both the barriers to entering free-to-air broadcasting and the content rules, thereby bringing these pieces of mercantilism to nought.

Tax Reform

When the first Howard Government attempted to address a long-standing tax anomaly, its rejection by the States said as much about the sorry state of Federalism as it did about the sorry state of taxation. State and local Government were exempted from the payment of sales tax. Because they sold their vehicles into a second-hand market dominated by cars upon which sales tax had been paid, the exemption allowed State and local Governments to maintain an excessive fleet of cars at no cost to themselves. The wealth transfer was actually from private car owners who received reduced prices for their second-hand vehicles but it was too well hidden to be a political issue. The Treasurer used a Premiers' Conference to ask the States to pay the sales tax but did not offer to compensate them for the loss. The Federal system was seen at its uncooperative worst when the States ultimately agreed to pay the tax only on the cars purchased for senior public servants.

Howard set out to make tax reform the means by which his Government restored its leadership credentials. The risk that Australians would look back on the nineties as years of wasted opportunity, when first the Keating and then the Howard Government dropped the reformers' baton handed to them by the Hawke Governments had become real. A senior bureaucrat had already observed to Peter Walsh that this Government has reached that condition of directionless reaction that took Labor six or seven years to reach.[470]

Howard's decision, knowing the risks, to run at the 1998 poll on tax reform was high-order political courage – some said crazy-brave. In June 1997 he took tax reform based upon consumption taxation of goods and services to the party room where David Barnett tells us it was well received.[471] Not for the first time, the party room, was not dominated by save-our-seats pragmatists but proved as courageous as the ministry.

How the three arms of Government tax the nearly $200 billion that they raise annually is less important than the fact that they do raise it. Reform of the method of collection was not, therefore, a first league dry issue. Some Dries opposed it altogether on the ground that no Government should be trusted with access to revenue that was too easy to collect. Even so, tax reform was not a trivial matter. The system's shortcomings could be grouped under four heads – economic inefficiency, unfairness, compliance cost and negation of the federal division of political power.

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[470] Peter Walsh, personal communication

[471] David Barnett, John Howard, Viking Press, p 792

The so-called 'sin taxes' levied on tobacco, alcohol and gambling were off the agenda. The Treasurer, Peter Costello, had said the Government was 'against sin'. Be that as it may, it had no intention of abandoning such inelastic politically-painless tax bases. Howard's proposal called for the abolition of wholesale sales tax, pay-roll taxes, stamp duties, and the financial transactions taxes (FID and BAD) in favour of a tax levied on the value added to goods and services. It had most of the features of Hewson's and the New Zealand Goods and Services Tax (GST) and was also referred to as a GST. It taxed most close substitutes at the same rate and would have greatly reduced economic distortions.

The package also provided for reduced income tax where high marginal rates and a tax base that defied precise definition supported a huge tax-avoidance industry. Volumes of law, 12 inches thick when bound, cannot prevent it. Since not everybody has the same capacity or inclination to avoid tax, the situation is unfair.

Effort devoted to tax avoidance is a dead-weight cost. Economically sub-optimal but tax-friendly expenditure, for instance untaxed housing rather than assets that produce taxed income, is wasteful. Income tax and inflation sometimes combine to cause the least sophisticated investors with dollar-denominated assets, such as bank deposits, to suffer negative post-tax real returns. Income tax affects savings both before investment and upon the investment's earnings. Even though some people believed that this is equitable, it is not smart in a country that has a big and growing savings problem.

Income and corporations taxes also have the disadvantage, especially when as in Australia's case they are amongst the highest in the world, of creating a cost disadvantage for exports and foreign investors. Many people thought that this too was fair but again it was not smart because we also had a balance of payments and growing foreign debt problem.

The compliance and enforcement costs of the income tax were far larger than most people appreciated. It had been estimated that to raise an extra dollar of income-tax costs taxpayers between $1.23 and $1.65.[472] In short, income is a far less satisfactory tax base than most people imagine. Reduction in income-tax rates reduced the rewards to be gained from avoidance and the economic cost of the distortions.

The campaign against a GST mounted at the 1993 election notwithstanding, these problems were well known. Mark Latham, Labor Member for the NSW Federal seat of Werriwa, at the time the Opposition Education spokesman, proposed to avoid them with an expenditure tax. Although theoretically attractive, no country had one and the implementation problems were daunting.

Howard's package gave the revenue from the GST to the States, and thereby the opportunity to manage their expenditures without Commonwealth control via tied grants. By the 2001 CoAG meeting, however, there was little evidence that they had accepted the responsibility to fund their own enthusiasms. The GST arrangement, moreover, made it even less likely that the States would compete with each other to

[472] Freebairn, Porter and Walsh*, Spending and Taxing*, Allen & Unwin, 1987, p188

cultivate a revenue base by cultivating economic growth. Competitive federalism still had most of the way to go.

By 1998 it was not as easy to lie to the public on this issue as when Hewson contended with it. By the narrowest of margins, Howard was re-elected in an election dominated by tax. He did not, however, have the numbers in the Senate. Far from accepting that the Government had a mandate, it heavily amended the relatively straightforward system presented to it. To get the package at all, the Government had been forced to treat with the Democrats who, never long on economic principle, turned it into something of a dog's breakfast. Howard nevertheless regards it as a major achievement and it would be churlish not to allow him his reformist credentials here.

No system can tax the cash (black economy) transactions, but the GST and particularly its accompanying procedures did catch up with much tax avoidance. As the cash-rich Government approached the 2001 election the worst fears of those who did not trust it with an efficient tax base were realised.

Reform of the business tax system was put to one side while John Ralph, the recently retired CEO of CRA, was commissioned to report upon it. When the Ralph Report came down, it excited divisions among accountants, lawyers, mining companies and State Governments but not much dry or wet interest. Neither the IPA nor the CIS addressed the issues raised by it in any detail. Some recommendations, in particular abolition of Fringe Benefits Tax, seemed wrong in principle causing suspicion that the report was self-serving. The most important business tax reform, removal of the remaining tariffs, was not addressed.

Fearing that Australia would become a less attractive haven for internationally mobile capital, the Government legislated to reduce the corporate tax rate to 30%, modify depreciation accounting (but not to everyone's liking) and exempt half of capital gains from taxation. The capital gains tax change will, as the Government claimed, improve incentives to save and invest but reopened the opportunity to avoid income tax by diverting income to capital gain.

Other recommendations were deferred.

Hanson's 'One Nation'

When at the 1996 election the safe Labor seat of Oxley was won by an independent who had been disendorsed by the Liberal Party for her allegedly racist comments, events with profound consequences were set in train. The Oxley electorate elected Pauline Hanson, with 54.66% of the two-party preferred vote,[473] against a sitting Member, albeit one who had not long held the seat. Her margin was nearly wide enough under ordinary circumstances to have classified the seat as 'safe'.

Clearly the chord she struck was a deeply felt one. Its fundamental tones were opposition to politically correct intolerance and to racial favouritism. These had been previously identified and when in time she called her party 'One Nation' she followed Keating's 'One Nation' and Howard's 'One Australia'. All three terms were intended

[473] David Barnett, *John Howard*, Viking Press, 1997, p 732

to appeal to people who felt that Australians were being needlessly divided one against another. Rather than address this issue, however, the chattering class elected to accuse her of racism in terms that implied that half the Oxley electorate was racist. They made a hero of her.

From a dry perspective her election was unfortunate because she was soon espousing much the same xenophobic trade, investment and immigration policies that had once been advocated by the Country Party and that were still the bread and butter of Green and Democrat policy. She called for controls on foreign investment, high tariffs and dirigiste industry policy, and encouraged the popular misconception that immigration takes Australian jobs.

Hanson became the beneficiary of a huge beat up by people unrepresentative of the Australian mainstream. One of their lines alleged damage she was doing Australia in Asia, although it had to asked whether Asians were any more interested in the opinions of our minority political leaders than we were of theirs. Professor Heinze Arndt the doyen of Australian economists and a refugee from National Socialism in Germany wrote to me:

> I was in Bangkok last week at a conference of East Asian economists. The very few who had heard of Pauline Hanson dismissed her as insignificant. If any damage is being done in Asia by the affair, the fault lies with the media which has blown it out of all proportions.

Following her maiden speech Howard was pilloried for not condemning her and it, yet any Prime Minister would be reluctant to attack a new member's maiden speech, especially when that new member did not enjoy the benefits of colleagues' support within a political party. Under pressure, he did have the House of Representatives pass what in my parliamentary days was known as 'a pious resolution' but he properly chose to ignore her and, had others done likewise, she could never have become a political force. Instinctively she courted any attack that was clearly unfair, knowing that it gave attention to her views without injuring her politically. When a backbench MP, I had done the same.

Her One Nation Party picked up 23% of the vote in the 1997 Queensland state-election, terrifying elements of the National Party. The Nats would then have reverted to vote-buying and economic intervention had not that good soldier Tim Fischer displayed insouciance that was to prove justified by the 1998 poll. By 2001, however, both Fischer and insouciance were but memories.

In the meantime, all parties had moved perceptibly toward One Nation's policies. Howard actually admitted to the Press Club that he would reform only more slowly – in New Zealand parlance, 'take a tea break'. As we entered the Third Millennium we were again, like St Augustine (and Malcolm Fraser) praying for virtue but not yet. The wheel had gone a full turn.

The Political Stances of the Parties

Howard & Co gave little credit to the Hawke Governments' reforms. To do so would have been truthful and might also have been tactically smart. There were points to be won for generosity and more than that, since the Coalition in Opposition had not blocked reform but urged more of it, the Beazley Opposition could have been

contrasted both with both the Coalition in Opposition and Labor in Government. Although Labor would undoubtedly be more responsible in Government than in Opposition – all parties are – it could not campaign on that promise. Liberal tacticians' rejection of rhetoric that gave Labor its due was in due course to see the Liberal Party bidding against Labor with policies that a decade before it would not have stooped to proclaim.

Labor too distanced itself from the Hawke reforms advocating environmental and industry policies that turned away from economic freedom. It too had difficulty in working out what it stood for. Martin Ferguson complained that the Labor Party had fallen under the influence of 'the patter of the Chardonnay set'. Mark Latham tried to do something about Labor's aimlessness by writing a book defining a hill upon which he thought Labor might place its light. One may disagree with some of its many prescriptions but still applaud a serious attempt to give Labor goals that are consistent with each other, the legitimate interests of the have-nots and the national interest.

The Democrats had sidelined Labor during the GST negotiations. The possibility of their establishing themselves as a serious political force influencing Governments on behalf of the have-nots was briefly canvassed. They, however, proved incapable of making the necessarily tough trade offs. The party lay membership, against the wishes of the majority of Democrat Senators, stripped Meg Lees of party leadership not because she had she had rendered the GST a less satisfactory tax but because she had supported the tax that no party would repeal. Like most minor parties the Democrats proved content with power without responsibility, which, it has been observed, is the prerogative of harlots.

Hawke's behaviour after he lost the Labor leadership was resented in Labor circles but the fact remains that he led more than ordinarily successful Governments. One does not have to go all the way with Machiavelli to believe that honouring his icon would have done the nation much good and Labor no harm. It would have been a small price for Labor to pay for an opportunity to build on a good legacy that offered policy direction and credibility.

During Howard's Governments Labor chose to cosy up to disappointed vested interests and to do that it had to let Howard get away with claiming credit for the long 1990s boom and Australia's immunity from the Asian crisis. Had Labor instead insisted that these benefits arose from earlier reforms, it would have been able to cite explicit statements already made by the Treasury, Reserve Bank and Productivity Commission and in time would be made by the IMF and OECD. Without the reputation of better economic manager the Liberals' campaign assets become a bit thin. Had Labor insisted on the credit that was only its due, then the reforms themselves would have been relatively immune from effective denigration. Labor's tacticians also, however, saw the party's prospects differently, and its retreat from sound economic management has been the legacy.

Of Foxes and Hedgehogs

Early in 2000 John Howard suffered an uncharacteristic lapse. The National Textiles Company, managed by his brother, Stan, went into liquidation in circumstances that left insufficient funds to pay employees' non-salary entitlements. Howard used

taxpayers' funds to bale out these employees. Neither John nor Stan behaved in a venal manner but:

> Being 'corrupt' means somehow misapplying political or administrative power, whether directly or indirectly, outside its proper sphere, for one's own financial or material advantage or in order to distribute the gains among one's friends, colleagues, relations, or supporters. When a minister grants a subvention to an association of dubious utility, even when he observes all the rules in doing so, he is committing an abuse, especially if it turns out that the beneficiaries of the subvention are his personal or political friends.[474]

Labor supported this misuse of public monies as it had done in the Woodsreef case over 20 years before.

Dries tend to see political Government's prime responsibility as protecting individual liberties, and political leadership as the business of explaining and inspiring. They believe, therefore, that Prime Ministerial authority ought to be employed to outface the special pleading of trade unions, professional associations, protected industries and all sectional interests. Leadership is the art of making good politics of good policies.

The British philosopher Isaiah Berlin, looking at the problem of leadership, described political thinkers who come to terms with diversity and who recognise the perils of trying to impose a simple, single over-arching solution to every problem as 'foxes', the opposite as 'hedgehogs'.

The Australian, Tom Switzer, described Howard as a political fox adopting a non-doctrinaire approach to economic policy to achieve about as much reform as was achievable. He wrote:

> Between the late 1970s and the early-to-mid-1990s British Tories and American Republicans were unashamed advocates of competition, deregulation and small Government and after 1983 Australian Liberals followed this general trend. But these days prominent Liberals, Tories and Republicans use adjectives such as comfortable, caring and compassionate to describe a new conservative public policy disposition. … John Howard (comfortable and relaxed), William Hague (caring conservatism) and George W Bush (compassionate conservatism) are at one in redefining conservative parties in their respective countries.

Switzer described such leaders as true believers in capitalism to the extent that they are committed to private enterprise, but they are also realists who recognise that political limits are imposed on their legislative agendas. To the many Dries who have been less than enchanted with the shift to what he called 'the centre' and I believe was 'favouritism', he argued:

> Doctrinaire conservatives [I would have said, doctrinaire liberals] should not be so critical of their more moderate brethren. Indeed, it is highly likely that today's conservative leaders can achieve more legislative victories for the free market by adopting a more pragmatic approach towards economic reform, by compromising on some issues such as tariffs (as Howard did) while standing firm on others such as taxes (again as Howard did). … John Howard has achieved more change and legislative reforms than doctrinaire conservatives could have imagined.

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[474] See Chapter 1

Howard, Hague and Bush were foxes. On the other side of politics but not the wet-dry divide, Blair and Clinton after his remaking also were foxes.

It is easy to find examples of even those hedgehogs with whom Dries have little quarrel finding leadership of the explaining-and-inspiring sort impossible or, as is more often the case, not worth the authority squandered on an issue that was not critical. These, nevertheless, did not react like improperly propositioned virgins when presented with politically unpalatable but correct advice. If allowed to mature, the toughest issues can have their day and, if they can't be supported, they should at least be dealt with in terms that do not foreclose options.

In democracies, future reform depends upon the steady flow of informed public advice. Since opponents cannot cite a preference for vested interests, there is long-term tactical advantage in compelling them to state by what principles they oppose freedom, equity and good policy generally. The ensuing debate educates. In contrast policy inconsistency weakens understanding of the nature of good Government. While logrolling and not confronting argument with argument may sometimes improve today's chances of achieving legislative reform, it sacrifices the understanding needed for tomorrow's. Competent Dry advocates will woo their opponents by looking for shared values upon which to build understanding (and from which they risk losing their own misconceptions), but they do not, for short-term advantage, leave the field upon which ideals contend. Their opponents will never vacate it.

It is all too easy for foxes to drift from cunning to electoral cupidity. Politicians might claim with only some justice that it is their job to implement and it is the job of the think tanks and columnists to explain. The difficulty with that argument is that politicians themselves are very significant conduits for ideas. At least as they are presently resourced, think tanks cannot match the influence of politicians – a point I made to an Atlas Foundation meeting in Vancouver in 1983.

How could a man who was capable of running the GST campaign have been such a policy wimp to that point? Howard is not primarily a thinker but neither were three of the most effective reformers, Thatcher, Reagan and Kennett. He had their dogged determination but lacked their faith. Put another way: he had the stamina for 'conviction politics', if only he had had the conviction. Perhaps what he lacked most was a Sir Keith Joseph, Thatcher's intellectual mentor who by his own admission could never have led the Tories.

Thatcher, Reagan and Kennett did change laws, corporatise and privatise, but entrenched systems have a frustrating resilience and entrenched people take a lot of dislodging. Even these dedicated reformers, therefore, achieved less immediate change than they intended. They, however, wrought changes to the cultures of their various jurisdictions that I suspect were beyond their wildest hopes.

Howard faced more legislative frustration than either Thatcher or Kennett, but no more than Reagan did. Political victories should not be counted only in battles won or lost on the floors of political chambers. Important as these are at the time, they are relatively ephemeral compared with consensus concerning the political culture, the notions of how the good society should govern itself.

Howard lost part of his tax package but won a wider understanding that tax law should be simple, economically neutral and should not favour the clients of good lawyers. It is of no concern to Dries that the consequent improvements may be legislated by future Labor Governments. Howard was, however, too inconsistent to be a good teacher.

Cars, textiles, broadcasting, universities and money thrown at the rural backlash reveal how susceptible Howard was to special pleading and how little commitment he had to economic freedom and law that did not entrench privilege. It is the issues with the high potential political costs, such as bringing the budget into sustainable surplus, tax reform, labour market reform, waterfront reform, schools reform, the privatisation of Telstra and ‘mutual obligation’ but not gun control which was popular that I think in time will redound most to his credit.

Chapter 16
Backlash

They would say that wouldn't they!
Mandy Rice-Davies during the Profumo Inquiry.

It is incontestable that as the nineties progressed populist political parties and street campaigns dedicated to preventing further economic freedom and reversing what had already been achieved gathered momentum. The motivations for these were not, however, similarly self-evident, although the 'backlash' was fairly widely interpreted as having been caused by 'reform fatigue'. In Australia, following the rise of the populist One Nation Party and the defeat of the Kennett Government, vote-conscious politicians became reform shy. Leadership is never easy and politicians deserve more sympathy than some of their more carping and self-important critics afford them. Nevertheless, pollies are given exceptional opportunities to become informed and they do not have the moral option of following rather than leading, particularly should the populace be weary. Politicians who, knowing what they ought to do, do something else have abandoned their trust. That is, in the terms of Revel's explanation of political corruption, they have allowed themselves to be corrupted.

Moreover, if the voter disenchantment has explanations other than reform fatigue or the fatigue is based upon misapprehension that is amenable to correction, then a 'tea break', or worse, a policy reversal, might be not only weak but foolish.

The evidence does not deny the existence of reform fatigue and indeed there was plenty, mostly anecdotal, that voters had lost some of their enthusiasm for reform. However, it was not so dominant a reason for either Kennett's loss or Hanson's success as to exclude other explanations. Moreover, street demonstrations are a poor indicator of numerical support and much of the fatigue was no more than the predictable consequence of the destruction of straw houses and beat up of crises. The vested interests that had lost privileges would say that people were tired of reform, wouldn't they?

The Record of the Nineties

After half a century of totalitarian threats, the sight of East Germans dancing on the Berlin wall had a profound emotional effect on Dries, Wets and self-serving rent-seekers alike and it shut up the socialists for a while. Few Dries then expected 1989 to be the point at which the success of their ideas would slow down in the West as they gathered momentum in Middle Europe.

Poland, Hungary and the Czech Republic deregulated and privatised. East Germany was incorporated into modern Germany putting strains upon that economy that were to reveal its weaknesses. Lech Walesa and Vaclav Havel became dry heroes, even though neither was very dry. Western dry think tanks rushed to proffer advice, not all of it good.

During the next few years, Dries learned that the civil society that they advocated was even more dependent upon the culture than many had appreciated. The communities that had had strong civil cultures before communist domination and which had only been communist for a generation managed the transition with extraordinary success.

The others were plagued by crime and cowboy capitalism that, at least initially, denied the market economy's benefits to common people.

In the West, however, some of the urgency had gone from reform. At a dinner I attended to celebrate the tenth anniversary of the fall-of-the-wall, five well-recognised Dries each desponded upon the decline of liberalism. They were too pessimistic but liberalism had become yesterday's cause. The flood of liberal policy gains had abated, but there was then still a steady trickle of dry reforms and, except in New Zealand and parts of Europe, little had been reversed.

Although it was not at all the impression to be gained from the media, those whose knowledge went beyond the doom saying to the data would celebrate the new millennium knowing that humanity fared better than ever before. While much remediable poverty remained, except in Africa and a few remaining outposts of communist tyranny such as North Korea, the living standards of the world's poorest were rising faster than at any time in recorded history. Over half the world's population had enjoyed economic growth rates of over 3% p.a. during the 1990s.[475]

David Henderson, former Head of the Economics and Statistics Department of the OECD, assessed the tendency between 1975 and 1995 of 114 nations to liberalise their economies. He classified 77, including all 23 OECD and 13 of the 14 Asian nations, as 'reforming', 25 as 'intermediate', and 12 – mostly in Africa and the Middle East – as 'counter-reforming'. All large nations were to be found among the 77 and the 12 counter-reformers together had a combined GDP of only a little more than Canada. In 1995, Singapore and the United States were the most economically free. New Zealand, which had done 66% of what he estimated was possible, and Mauritius, which had done 61%, had done most to liberalise sclerotic economies. Germany 12% and Switzerland 13% had done least but in 1975 they had already been among the 4 most economically free nations. The greatest gains had been made with privatisation, deregulation and international trade: the least with health, education, fiscal transfers including state pensions and other benefits, and labour markets. The record has been less impressive since, but it had been a remarkable two decades.[476]

Life itself is the least easily distorted measure of human wellbeing. During the second half of the 20th Century life expectancy in India had risen from 36 years to 61 years.[477] The boon of old age was, however, distributed neither evenly nor randomly. The American Cato Institute tells us that, among 123 countries, life expectancy in the 24 most economically free was 20 years longer than in the 24 least free.[478]

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[475] Wolfgang Kasper, *Building Prosperity,* CIS, 2000, p 32

[476] David Henderson, *The Changing Fortunes of Economic Liberalism, Yesterday Today and Tomorrow,* The Institute of Public Affairs and New Zealand Business Roundtable, 1999, p 16 and following. First published by the Institute of Economic Affairs, *Occasional Paper 105,* 1998.

[477] Productivity Commission Annual Report 1999-2000, p9

[478] Cato Institute quoted by WA Chamber of Commerce and Industry, *Free Enterprise*, 2001, p 29

During the last quarter of the 20th Century many parts of the world exchanged goods, capital, technology, culture and people more freely than ever before. The tendency, which became known as 'globalisation', had these main features:

- The production and marketing of goods and services on a global scale.
- Economic organisations that cannot any longer be said to be Australian or American or any other national – Daimler/Chrysler and News International for instance.
- Worldwide capital and currency markets.
- Everyday transnational communication, most often in English, and increasingly over the Internet.
- Intermingling and blending of the world's cultures, enriching the choices available to all and reducing the tendency for Chauvinism and misunderstanding.
- Immigration, emigration and travel.
- Rising living standards in nearly all non-African nations as people exploit comparative advantages better.

Its critics and some of its advocates say that it reduces the sovereignty of national Governments and, in one sense, it does. Governments are finding it increasingly difficult to keep their citizens in ignorance or to deny them the goods, services and ideas of foreigners. Practical sovereignty has indeed shifted, but it has not gone to foreign Governments. Instead, each nation's citizens are capturing it from their own rulers and apparatchiks. For good and ill, the various Governments' formal law-making powers are undiminished but their ability to hide the consequences of their laws is. Heaven forbid, even the women of Iran are demanding liberties that the mullahs associate with western decadence.

A three-minute telephone call to the United Kingdom that cost $350 (today's dollars) in 1926 costs 65 cents today.[479] E-mail connections are even cheaper. The rest of the world cannot be shut out. US organisations employ the Irish and Indians to undertake back-room activities, such as data processing, taking advantage of time differentials that allow the work to be done during the US night and pay scales that reduce the cost of US services and raise Indian and Irish incomes. Individual factors of production and whole industries seek out the legal, cultural and social environments that offer them such advantages as stable property rights, inexpensive or highly productive labour, social stability, pleasant environments in which to raise families, low taxes and a regulatory environment that does not unduly hinder economic activity. It remains the responsibility of national Governments' to facilitate and protect these beneficial environments.

The communications revolution has, however, made it difficult for them to keep their people ignorant of better practices elsewhere or misGovernment at home. For instance, at the time of the Tienanmen Square massacre, accounts of what actually happened were faxed into China. Today they would e-mailed. Some of the brightest young people fled China, Vietnam and Cambodia to make homes in nations that allowed them better to use their talents. The flight of young people dramatically changed East Germany in 1989. Less dramatically, the loss of 10% of New Zealand's skilled young brought about a considerable change of thinking in that country.

[479] Productivity Commission Annual Report 1999-2000, p5

Even for far-flung island States, such as Australia, international borders are becoming less restrictive. If the new order is to mean that my Chinese neighbour drives a Japanese car, which is insured in Britain where a multinational company employs my daughter, I don't see why I should not be pleased. It would, moreover, be a considerable bonus if the mixing of the international pot and the spread of liberal ideals meant that my grandsons never had to fight a war.

The trend towards the global society undermines the primacy of politics. That political activists resent this is hardly surprising. The trend is not new but the rate of its progression is. Despite the so called reform fatigue, it gives old Dries some hope that the last quarter century's reforms will not be undone in any wholesale way but not that Australia will continue to progress faster than other nations.

Promises to the contrary notwithstanding, centralised control, autarchy, state ownership, and the *noblesse oblige* of the privileged few has nowhere resulted in any considerable betterment of the masses. On the contrary, wherever people of equal legal status were permitted get on with their own lives under strong but limited Governments guaranteeing security of person and property, commoners have prospered[480] and truth is becoming more difficult for interests and their client Governments to hide.

A comprehensive evaluation of economic freedom by Gwartney and Lawson published by the Fraser Institute shows in both relative and absolute terms Australia's attainment of: freedom for private decisions; security of private property; stable money; internationally open markets; freedom to work, buy, save and invest; and simpler more reliable trust-inspiring regulation. From the seventh most free among 123 nations in 1970 Australia had crashed to 17th in 1975 and climbed steadily back to 6th by 1999.[481]

Australians began 2000 with fireworks, then treated themselves to more fireworks for the Olympics and more again to mark 100 years of Federation. We would probably have had these parties anyway, but after 9 years of solid economic growth some self-congratulation was warranted. Since 1991, growth had averaged above 4% p.a., consistently out-performing both the United Kingdom and the United States, themselves excellent performers. We had lifted our relative position from sixteenth wealthiest nation in the OECD to eleventh.[482] Measures of consumption by poor households indicated that these had made the fastest improvement in the living conditions.[483] Following the reduction of tariffs, from about 1991, manufacturing industry's share of Australia's GDP had, temporarily, ceased its steady decline.[484]

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[480] Hernando de Soto, *The Mystery of Capital,* Bantam Press, 2000
[481] J Gwartney and R Lawson, *Economic Freedom of the World Annual Report 2001*, p 126.
[482] Charles Bean, *Australia's Economic 'Miracle'; a View from the North*, Reserve Bank of Australia.
[483] *In Support of Free Enterprise,* The Western Australian Chamber of Commerce and Industry, 2001, p 21
[484] Productivity Commission, *Some Aspects of Structural Change in Australia,* 1998, p xiv

Unemployment, still around 6.5%, was down from 11% eight years before. It was higher than that of either the United Kingdom or the United States, but well below the average of the European Union.[485] The number of man-days lost to industrial disputes per thousand employees had fallen from a peak of over 1200 in 1974 to around 250 for the decade to 1991 and around 150 for the nine years to 1999.

Inflation had been reduced to between 2% and 3% and seemed stable, but that was true also of most of the countries with which we compare ourselves. Although net foreign debt was much less satisfactory, net public debt was far less in Australia than in most comparable nations – a considerable advantage should the luck run out. Reflecting the gains from tariff reduction, Australian trade participation, as a proportion of GDP, was one third higher than it had been in the mid-1970s.[486] Even the doomsayers could not hide the fact that Australia had weathered the Asian setback.

Secretary to the Treasury Ted Evans told us that:

> Economic shocks can be regarded as the 'stress tests' of economic policies and institutions. How well an economy performs in the wake of adverse shocks such as droughts, commodity price fluctuations or disruptions to the global economy is a test of its flexibility and the quality of its policy frameworks. We can regard the Asian crisis as the stress test of the policies of the 1980s and 1990s, just as the oil price crises of the mid and late 1970s can be regarded as the stress test of the policies of the 1960s and 1970s.
>
> To avoid a serious domestic downturn in the wake of an adverse international shock is a very important social achievement – an important contribution to the ultimate objective of improving living standards.
>
> I suggest that Australia's comparative growth performance and resilience to shocks have been worst when currents of economic nationalism were at their peak in the late 1960s and through the 1970s.[487]

These were the benefits that the reformers had promised that financial deregulation, reform of Government business enterprises, reduced tariffs, national competition policy and improved labour market flexibility would deliver. Surely our good relative performance had not been luck.

Multifactor (labour and capital) productivity gains during the whole of the 1990s had averaged around 2% annually (2.4% in final six years[488]) compared with a historical average of 1.5%. The difference may not sound much but in ten years that half of one percent means that real average incomes are 5% higher than they would have been had the gain been only 1.5%. That the OECD as a whole had not experienced a similar improvement at least points to a domestic cause. What else but the gains in

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[485] Charles Bean, *Australia's Economic 'Miracle'; a View from the North*, Reserve Bank of Australia
[486] Productivity Commission Annual Report 1999-2000, p2
[487] Ted Evans, Ninth Annual Colin Clark Memorial Lecture, 3 June 1999
[488] Graeme Samuel, *Australian Financial Review*, 21 June 2000, p 41

economic freedom due to the institutional reforms of 1980s and early 1990s? In the five years to 1996-97 electricity prices fell by 10% in some States and up to 30% in others. Although Telstra's service remained suspect, telephone calls became cheaper. Those who could remember the arrogance and inefficiency of the old Telecom should not have denied the improvement but with an eye to subsidies some did. Transport had become very much less expensive and more reliable. Strikes and industrial go-slows were almost but memories.

The gains had been less than the projections made in *Australia at the Crossroads,* but had we started earlier and done the job more completely we could surely have done even better than we did. A virtue of wisely-chosen economic reform is that its benefits are cumulative. A mere half of one per cent improvement in productivity will raise real incomes by 30% in only 40 years. Critics of the reforms to date might imagine how they might spend another $15,000 or $20,000 each year that they would have had today had Hawke's reforms been initiated by Chifley.

Australians had achieved a great deal not only in absolute terms but also relative to other nations. We seemed, however, determined upon talking ourselves into misery.

The *Zeitgeist* in the Nineties

When I had briefly attended Sunday school *The Little Red Hen* and *The Ant and the Grasshopper* were staples. Nobody then said that the farm animals that would not accept the hen's job offers and the profligate grasshopper were victims of society. Although the Christian Churches even then doubted the efficacy and even morality of free exchange, they did not doubt that wealth is produced by working and accumulated by saving. They taught that sloth and profligacy were sin.

As Governments took over the Christian churches' care of the needy, many clergy took to speaking more dogmatically about material welfare than spiritual welfare. They most often did so without reference to either commonplace economic principles or to the moral standards exemplified by the hen and the ant. Arguably they contributed to the problems they wished to alleviate. They, like the politicians, had found it easier to follow public attitudes than to lead them. Public scepticism about economic theory was far from new, but the changed attitudes to work and thrift, especially in chattering class circles, were a post 1960s phenomenon that had weakened one of economic growth's supports. However, old values die hard and it is yet a bit early to despair.

The WTO negotiations in Seattle were intended to launch the ninth round of trade liberalisation that was to take the liberalisation of trade in services and agricultural products further forward. Without the support of the Clinton Administration its success was impossible. Previous rounds had seen the wealthy nations reduce the average tariff for manufactured goods from 40% to 4% and few economists doubted that this had contributed significantly to the escape of many millions from poverty.[489] Nevertheless, repudiating views that he had expressed to that date, President Clinton used an unruly and incongruous rabble of environmentalists, socialists and anarchists to avoid further trade liberalisation in an election year. His pusillanimity squandered a major opportunity but it did not yet reverse previous gains. The street violence was

[489] *Australian Financial Review*, 11 September 2000, p 7

repeated, with many of the same leading characters, in Melbourne, Prague, Davos and Genoa. Where the demonstrators found the funds to travel the world is not proven but Governments, such as the European Union which finance their organisations, that see their power dwindling, protected industries and their trade unions must rate among the suspects.

At a time when the undeveloped world was trying to capitalise on the benefits of 'globalisation' – some such as China by seeking admission to the WTO –, globalisation was being denigrated in rich countries. The professed agendas of the protestors were irrational. If trade and investment embargoes could be employed to punish North Korea, Cuba and Iraq, why should Western nations deny trade and investment to their friends? Over a no doubt expensive luncheon, Director General of the WTO, Mike Moore, told Clinton:

> There is a contradiction between good people in wealthy countries who on Sunday at church give money to help out those who have suffered famine and flood, but on Monday sign a petition stopping the opportunity of workers in those same sad lands to sell what they create.[490]

In wealthy nations the economic agenda was being challenged and politicians were reordering their priorities. In Australia, One Nation appealed to the same xenophobia and economic irrationalism as the rioters in Seattle, Melbourne, Prague, Davos and Genoa. A resurgence of mercantilism called for 'fair trade not free trade', 'reciprocity' and 'managed trade', and this was encouraged by our own Government's habitual misuse of economic argument. Yet it is small countries such as Australia with little bargaining power that have most to gain from the rules-based trading system that the WTO endeavours to uphold.

On the positive side, political leaders have so far reversed little but their rhetoric. During the last quarter of the 20th Century most countries not in Africa, when faced with economic difficulties or mere disappointment, had managed, at least temporarily, to shuck off the hold that organised voters, the colonels, landed interests, apparatchiki or other narrow interests had had over public policy. Economic regulation, such as price controls and those preventing people from participating in defined economic activities, had declined in OECD countries and continued to decline throughout the 1990s, although social and administrative regulations were expanding.[491]

Clinton, for all his dampness in Seattle, had shifted the American Democratic Party in a pro-business, pro-free trade direction. Further, the Democratic Party had reversed its position on welfare payments. With policies to 'give a hand up rather than a hand-out' the number of people on welfare in the United States had fallen by 55% between January 1996 and June 2000 with one third of the gain attributed to the reforms. Clinton had embraced a balanced budget, reducing federal spending as a percentage of the US economy from 22% to 18.3%. The *New York Times* reported that 25 of the 50 US states were considering school vouchers – 5 had introduced them.

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[490] WA Chamber of Commerce and Industry, *Free Enterprise*, 2001, p 27

[491] Phil Barry, *How do we Compare*, New Zealand Business Roundtable, p 12 quoting OECD (1997b) *Report on Regulatory Reform: Synthesis* p 7.

In Britain, Labour Party Prime Minister Tony Blair had made very few changes to Thatcherism, even as it applied to the labour market, and he had introduced fees for tertiary education and given independence to the Bank of England – two matters that the Tories had felt were beyond their political competence. When Britain became one of the strongest economies in Europe, the agenda moved on to matters that were once too difficult.

When the Netherlands, Denmark and Ireland observed what had been done in Britain, they started to deregulate their labour markets. The German finance minister told the 2000 Davos economic Summit that 'Germany as a closed system … is over'. Cynics might say, 'At Davos he would say that, wouldn't he', but he could not say it without being reported at home. Britain, Sweden and Germany were taking small steps toward levelling the playing field upon which the private and public sectors contended to provide health care.[492]

At the end of the century, welfare reform was being attempted, if only tentatively, in most Western countries. The OECD reported that over the previous five years the only member country that had not taken some steps to address the impact of related benefits upon unemployment was Spain, which had earlier made a number of important reforms.[493]

Privatisation was showing no sign of abating.[494]

In the 1980s, the Irish were by European standards poor and looked like becoming relatively poorer but by the late nineties the relative prosperity of the Irish had become table talk. It had been their nominally socialist party that had begun privatising and budget cutting and by 2001-02 Irish Government spending was budgeted to be only 26% of Gross Domestic Product, down from 50% only 15 years before. Eleven of the 15 OECD Governments that cut tax rates during the nineties had been of centre-left persuasion.[495] The drying of leftish Governments was a remarkable feature of time.

Nevertheless, by the end of the nineties, the Western world over, political leaders were again prone to cutting deals with interest groups. With Howard's excessive reaction to the rural backlash passing for Australian leadership and Clinton's to the mobs at Seattle for world 'leadership', it had to be asked whether people such as Thatcher, Douglas, Deng Xiaoping and Hawke had been creatures of the *Zeitgeist* of a time that had lasted but briefly.

Australian Dries had to admit that in spite of achieving most of their original agenda except labour market reform, a significant part of the public remained unconvinced. We had also to admit that Hawke, Hewson, Greiner and Kennett had gone and that Howard the Prime Minister was not the dedicated reformer that Howard the Leader of the Opposition had once been. Wets in the Liberal Party had succeeded in having

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[492] Phil Barry, *How do weCompare*, New Zealand Business Roundtable, p 25
[493] ibid, p 19-20
[494] ibid, p 17 and Annex 5
[495] ibid p 7

themselves referred to as ‘moderates’ and Labor had no obvious equivalents of Keating when he was Treasurer or Peter Walsh.

They had to admit that several vested interests had mounted an effective counter attack and were by 2000 more often dominating apparently weaker politicians. Howard’s capitulation to the car and textile companies and Bracks’ capitulation to the unions, liberalising Workcover and restoring one-size-fits-all industrial awards, were elements of a trend. Australian Governments were also again lapsing into profligacy. Howard was throwing money at infrastructure of dubious merit such as the Darwin to Alice Springs railway and worse, he was subsidising individual companies. The Bracks Government that had inherited a surplus of $1.7 billion was using it to finance big increases in the numbers and pay scales of nurses and teachers. Only a year into its administration, the Victorian Auditor General had warned of the need for budget restraint.[496]

Political opportunities to reform institutions in a citizen- and enterprise-friendly way do not arise with equal effect all the time. Those with political power and access to it tend to protect their positions, even at the expense of the average citizen and future prosperity. Ordinary citizens are not fully informed about the pursuits of politicians, bureaucrats and lobbyists and, because they have little influence and reliable information is often hard to obtain, it is rational for them to remain ignorant. As long as the going is reasonably satisfactory, the common weal is therefore frequently neglected. The institutions that protect economic freedom and prosperity are allowed to degenerate (a subsidy here, a favourable regulation there and a non-enforcement of a rule to benefit a political ally somewhere else....). Favouritism dominates politics, politicians declare ‘tea breaks’ in reform, and interest-group spokespeople declare ‘reform fatigue’. Political and economic rectitude is too often postponed.

Over time, this leads to a growing sclerosis in the economic system; old, established interests are protected; new opportunities are not readily taken up; and outdated, loss-making ventures are not readily scrapped. In the aggregate, economic growth slows down, and outside disturbances, such as an oil crisis, convert recessions into depressions. This happened in Australia in the 1930s and the 1970s.

After a period of malaise, political entrepreneurs of a new generation tend to be motivated to simplify regulations, make institutions more transparent and govern with less favouritism. The Dries here and overseas were such entrepreneurs. The faster growth, accelerated innovation and the new wave of enterprise of the 1980s and 1990s was their legacy. It seems that the reforms of 1980s/1990s produced the current wave of innovation and growth, comparable to the Federation boom at the start of the 20th century, and that of the 1950s and 1960s.

However, no wave runs on forever. When economic growth becomes taken for granted, political opportunism, renewed popular indifference and aggressive distribution battles begin again to dominate public policy. Institutions are allowed to degenerate. Windows of opportunity for reform begin to close, as people prefer secure positions, rather than creating new growth opportunities through active reform. The cycle begins anew.

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[496] Ivor Rees, *Australian Financial Review*, 22 November 2000

This interaction between politics and economics seems to be the ultimate reason why economists observe long waves of economic acceleration and deceleration. They have called these long waves 'Kondratieff cycles', after the Russian statistician who first showed that Marx's prediction of a collapse of capitalism was overcome by economic reforms leading to new enterprise and innovation. In the past, these waves have lasted some 40 to 50 years, and some observers are now predicting that the present backsliding in institutional reform will lead to a repetition of the 1970s experiences within the next decade.[497] More or less on cue the world may be heading into another Kondratieff downswing and only a revival of reform and resistance to the temptations of political opportunism can prevent one of the next recessions in the business cycle becoming something more serious. Australia, among the most actively reforming nations in the 1980s and early 1990s, by the end of the decade was no longer among their number.

From the mid 1990s, Dries faced the same three formidable hurdles that they had always faced:

- Economic logic was still counter-intuitive to most people who, seeing no other order, turn instinctively to command-and-control.
- Reform imposes costs on some people and the costs tend to come before the benefits.
- People who benefit from the status quo are identifiable, concentrated and organised, while those who benefit from change are less so – the tyranny of the *status quo*.

As well, 'institutional capital' had not anywhere risen fully-fledged from the ashes of command. As already noted, to function well, markets require not just legal freedom but the discipline, much of it cultural (moral), that permits trust to be well founded. Australia had suffered the excesses of the 1980s when unpleasant commercial characters and equally unpleasant political characters had brought deregulation into some popular disrepute. However, compared with nations that had been more statist for much longer, Australia had escaped this tendency relatively lightly. Russia, for instance, suffered so grievously that the common Russian's living standards fell in excess of a third.[498] Communities, from nations down to families, are as effective as their institutions, which they corrupt at their peril.

All of these considerations have force that future reformers cannot afford to neglect, but it will, nevertheless, be the tenor of the remainder of this chapter that the pessimism is overdone. My story necessarily becomes more speculative.

Reform will be slower also for reasons that have little to do with the *Zeitgeist.* The more straightforward tasks such as reducing barriers to trade and capital movements and the sale of state-owned trading enterprises are well advanced. As nations turn to reinstating a culture that instinctively honours doers and savers (the little red hens and the ants), and to reform of health-care and welfare services, reformers will face the usual special pleading. They will also, however, have to contend with more disagreement from people with whom they have more genuine philosophical

[497] Wolfgang Kasper, *Building Prosperity,* CIS, 2000, pp. 6-11
[498] Wolfgang Kasper, *Building Prosperity,* CIS, 20, p 34

differences. On the credit side, many more people, particularly among those who regard themselves as being of the Left, now appreciate that liberty, responsibility and prosperity are inextricably linked.

Backlash

When social democrats and labour parties espoused economic freedom for the sake of battlers, 'the left' reclaimed its original opposition to privilege. As we approached 2000, the Treasury, Reserve Bank and Productivity Commission were all on record crediting the reforms undertaken by the Hawke Governments and supported by the then Opposition with Australia's strong 1990s economic performance that had saved 'have-nots' much unnecessary distress.

Nevertheless, voters had been unimpressed. Elections for the parliaments of New South Wales in 1991, Queensland in 1995, South Australian in 1997, Queensland again and the Commonwealth in 1998, Victoria in 1999 and WA and Queensland in 2001 had all seen independents and/or minor parties of a populist bent win votes at the expense of the Labor, Liberal and National Parties. Although the Green and Democrat voters were more city-based, the new element, which was the swing to One Nation, was particularly strong away from the major cities. Both majors set out to woo minor-party voters, especially in the bush. However, if they were not to sacrifice economic potential for scant political advantage, they needed to appreciate the underlying and not just the proximate causes of this 'backlash'.

The rise of the One Nation Party – described by Coster and Economou as 'a curious amalgam of old Labor and Country Party values opposed to economic liberalisation'[499] – was interpreted as the death of economic rationalism. It was, however, hardly surprising that One Nation should espouse populist nostrums. All parties that do not anticipate the responsibilities of office do that, and at the 1996 election, the Greens, Democrats, One Nation and Labor dissidents, Graeme Campbell and Rex Connor Jnr, had remarkably similar platforms.[500] They were each interventionist and xenophobic. Each appealed to the traditional Australian interests of state paternalism, industry protection and White Australia, albeit that the last was couched in terms of limited immigration and rationalised in environmentalist terms by the Greens and Democrats. When they became less interventionist and xenophobic, the majors left policy space for the minors. Nevertheless, as the minor parties cannot have been expected to implement their policies and few voters study party platforms, something more impressionistic – a style, attitude, approach or value system – ought at least to be suspected of capturing so much voter allegiance.

Inevitably, the opponents of economic reform had used their sometimes-considerable resources to encourage disenchantment, to focus it upon their particular concerns and to encourage the belief among politicians that economic reform was its prime cause. The National Farmers' Federation had pushed the reforms but the gains for rural communities had been masked by the inexorable decline in farmers' terms of trade. These would have declined even further but for the reforms, but the economic linkages were not widely appreciated.

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[499] Costar and Economou Editors, *The Kennett Revolution*, UNSW Press, 1999, p 263
[500] Lyndon Rowe, *Odd Bedfellows,* IPA Backgrounder, July 1998

The Hawke Government in 1990 was elected with only 39.4% of the primary vote and the Howard Government in 1998 with only 39.5%. During the 1990s the share of the primary vote gained by the Labor, Liberal and National Parties at Federal elections had declined by about 6 percentage points. After 2000, the trend to minor parties gathered further momentum. In 2001: the reform-inactive Richard Court Government in WA lost in a landslide to Labor; in Queensland the Coalition lost to Labor, also in a landslide; the one-time reformer gone soft, Howard, lost the safe Liberal seat of Ryan at a by-election; and the conservatives lost the Northern Territory to Labor. In each case minor parties had polled heavily and Labor had benefited from the distribution of preferences. Much argument followed about what the Coalition might have done to attract particularly One Nation preference votes. Its adverse poll results had no doubt been exaggerated by in some cases the tactic of putting One Nation last on how-to-vote cards and in others by ethnic voters punishing it for not putting One Nation last, but that is not my concern. The swings would have been substantial anyway. Why?

Hanson's support had been extraordinary. Apart from her 54.7% of the vote in the 'safe' Labor electorate of Oxley, her One Nation Party polled 22.7% of the primary vote in the subsequent Queensland State election and she personally polled 36% of the primary vote in Blair in 1998. (With the Labor and Liberal Parties exchanging preferences she was not elected.) These were not, moreover, results that could be attributed to Hanson's personal appeal alone. Kalgoorlie voters had returned Graeme Campbell, who had been disendorsed by the Labor Party for, among other perceived misdemeanours, expressing the same opinions as Hanson on Aboriginal welfare and immigration. (He had expressed them long before Hanson but, a member of the Labor Party, he had almost escaped criticism.) Voters in 1996 also gave especially large swings to Bob Katter and Bob Burges, two National Party MPs who had questioned what they saw as the preferred treatment of Aborigines. The Aboriginal Affairs Minister, Robert Tickner, who had vetoed the Hindmarsh Island Bridge because of secret Aboriginal women's business, suffered a marginally greater swing against him in his non-rural Sydney seat than that towards Pauline Hanson in Oxley. His 54.89% of the two-party preferred vote was reduced to 45.11%.

The Australian electoral experiences were consistent with a worldwide phenomenon.[501] Jean-Marie Le Pen in France, Ross Perot and Pat Buchanan in the USA, Winston Peters in New Zealand and the German Greens had also done well with policies that like the Greens, Democrats and One Nation in Australia were opposed to ethnic diversity, trade, immigration and globalisation – that in short were xenophobic.

In sharp contrast, however, not long before the 1996 general election, the Australians Against Further Immigration Party had received a derisory vote in the Lindsay by-election. The arch reformer, Jeff Kennett, had lost by only a narrow margin in Victoria in 1999. His share of the two-party preferred vote (49.8%) had been better than Howard's in 1998 (49.0%).

Kennett's reasonable showing notwithstanding, the Coalition Parties were in trouble and policy had probably contributed, but to what extent? A substantial number of

[501] Scott Bennett, Research Paper No 10, 1998-99, Library of the Commonwealth Parliament.

electors had wished to send a negative message to the major parties and it seemed to have had something to do with Aboriginal and/or economic policy. The Lindsay result indicated at least tentatively that no similarly large number was strongly concerned about migration levels.

An Alternative Explanation of the Pauline Hanson phenomenon

Alienation, a sense of being left out, offers an alternative plausible cause of voter disenchantment. It is one that does not require people to form opinions on micro-economic issues. Anecdotal evidence of at least rural alienation abounded and many had commented on it. There were also stories circulating of the disenchantment of the people whom Kim Beazely Snr had once described as the cream of the working class. That such alienation is more likely than self-interest or shifting ideology to have caused significant numbers of people to change their vote is hard to demonstrate. My belief that it has been at least significant and maybe dominant is based primarily on my electorate experience. However, Katherine Betts' survey described below and Commonwealth Parliamentary Library research offer me support.

I lost my parliamentary seat in 1983, but even then my farming and trades constituents were resentful of the imposition of politically-correct values that discounted their 'old-fashioned' morality while insisting upon a new code of dos and don'ts that seemed to them to trivialise morality itself. The obvious disdain with which their opinions were treated hurt them, as did epithets such as 'red-neck' and 'racist'. Few would (perhaps could) articulate their resentment in general or abstract terms. Many would, however, talk bitterly of specific instances.

Looking first at Aboriginal policy: Voters could see the money spent on alcohol and on housing that was quickly destroyed. In my political days it had, nevertheless, been rare for me to meet a constituent who was callous and equally rare to find one who believed that he knew what to do about indigenous affairs policy. Although rural and city-fringe voters who later turned to One Nation were concerned for the safety of their own properties and persons, it had not been an obsession. More of them were more concerned for the unhappy plight of too many Aborigines and they suspected that Government policy contributed to rather than alleviated their plight. Repeated accounts of people 'working the system' encouraged the belief that the Government was so entrapped by politically-correct mores that it was not concerned to administer its own policies.[502] The votes were cast against politicians not against Aborigines.

It is, of course, difficult to refute the inevitable charge that my own racial prejudices make me blind to those of these voters. I can with justice claim, however, that as an MP and columnist I have defended racial minorities to greater effect than many of my critics. I leave the matter to my readers. Having conceded that Aboriginal policy featured largely in the debate, that this one issue – important and frustrating though it is – accounted for a large shift in voter behaviour seems to me to be implausible.

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[502] In the 1971 Census, 671 Tasmanians said they were indigenous Australians. For the 1996 Census, 13,782 Tasmanians said they were indigenous, making Tasmanian Aborigines the world's fastest-growing ethnic group and giving Tasmania the proportionally highest indigenous population of any State. Tasmanian Aboriginal activist Michael Mansell has said that there are a lot of phoney Aboriginals who are claiming to be such for the money.

I also find it implausible that economic policies that had so benefited rural industries could despite the run of bad prices have produced such a backlash. There needed to be a more visceral, more deeply felt cause. I suspect it to have been a sense of alienation, of being despised and dismissed, of being outside the political and social loop. I think some voters felt that they had been deliberately left out, although that was not the case. Hanson's counterpart in New Zealand, Winston Peters, had not gained as much support, but New Zealanders had not made a martyr of him and pariahs of his supporters. The chattering class never understands that its contemptuous disrespect for the opinions of the common man makes a cussed voter of him.

I was not alone in casting about for an explanation when, in August 1998, I filed the following:

> The dreaded Pauline has too many Liberal, National and Labour MPs scrambling to emulate her economic policies; while Greens and Democrats aren't scrambling only because they espoused them first.
>
> Her critics' very public accusations of racism and the inadequacy of opinion polling to which they are accustomed slaves stop them understanding the phenomenon they would combat. Having declared that Hanson is a witch to be burnt at the stake, our over-excitable opinion leaders now find it too difficult to admit that almost a quarter of the electorate accept her heresy. They are unwittingly and unwisely turning her into the equivalent of Joan of Arc – who, it is true, was eventually burned.
>
> They would have us believe that, while Hanson is motivated by race, her voters are motivated by economic reform that is too fast and has been going on for too long. The latter is, however, too hard to reconcile with support lost by the Australian Democrats, Greens, Australia First and Advance Australia which all have very similar economic and immigration policies to those of One Nation.
>
> One Nation could not have made it into the big league of lower-house seats, if it had not been vociferously and unfairly attacked in the very terms employed to denigrate the forgotten people themselves. Hanson is their champion. An unlikely and in my opinion misguided one, it is true, but a brave one.
>
> Opinion polls have not more clearly picked up this feeling of rejection because the direct question cannot be answered. If you doubt me, the next time your family is ignoring your undoubted wisdom, try explaining your problem in twenty words. You will settle for some minor concrete grievance as One Nation voters have in turn said guns, immigration, Australia Post, etc.
>
> From being cross with the Howard Government for not governing purposefully when it had the climate and the standing to do so, I now find myself defending Howard as he tries to hold a sagging line against politicians wanting to out-Hanson Hanson. And the sight on television of that good soldier, Tim Fischer, saying that he would not save his seat by abandoning policies that he knew were needed should have brought a tear to the eye of any patriot.

> Too few will appreciate his courage. Nevertheless, I once represented both bush and upper blue-collar country in WA where the Hanson vote is today even higher than it is in Queensland. For what my opinion is worth, the votes of these forgotten battlers can be won with recognition and respect for their values, but never with handouts.

In 1999 a Parliamentary Research Paper reported:

> There is anecdotal as well as survey evidence that Pauline Hanson's One Nation (PHON) has gained some support from frustrated citizens who feel that the major parties have stopped listening to them – as a recent study on the 1998 Queensland election put it, the PHON constituency is 'a large component of the community that is both disenchanted [and] feels disenfranchised'.

There was a further possible strand to Hanson's support and it too had little to do with either Aboriginal or economic policy. Because she was unfairly treated, she attracted sympathy, and because she is brave, she was admired. Again and yet again she was met, not with argument, but with invective and street demonstrations that were at best uncivil and at worst violent. TV coverage of her meetings caused Hanson to be seen as the victim of orchestrated persecution, as indeed she was. Two particularly disgraceful events became well known. 59-year-old Keith Warburton, not a member of the One Nation Party, was attacked while leaving a Hanson meeting. His skull was fractured by so called anti-racist vigilantes.

One or two thugs can fracture an elderly man's skull: the other particularly disgraceful event was the more significant. Michael Duffy described it in the *Daily Telegraph* this way:

> It was Australian democracy, 1990s style, typical of what many people have had to put up with to hear Pauline Hanson speak during the last 18 months. Jeff Kennett's police did a deal with the demonstrators and the meeting was called off in return for the physical safety of the people who had come to hear a federal politician speak. It was a black day for Australian democracy. It's difficult to know who deserves more contempt – the thugs who are now using physical force to repress free speech, the politicians and the police who are letting them get away with it, or the moral posturers who, with their spurious outrage about One Nation racism, are condoning increasing levels of violence and repression.

If those events did not cause at least tens of thousands of Australians who would not otherwise have given her a second thought to support Hanson, then I am no judge of public sentiment. Courage, of which she displayed plenty, is admired even in the unwise. Unfairness, of which she suffered plenty, is condemned even when perpetrated against the foolish. Australians are, on the whole, a fairly decent lot!

The orchestra tors of the anti-Hanson campaign were trying to land a bigger fish. They wanted to force the Prime Minister into endorsing their New Class attitudes and put the Liberal Party in a no-win political situation. They began by insisting that Howard condemn Hanson's maiden speech that had said nothing that Graeme Campbell had not already said, and they continued to demonise her and One Nation. What began as an organised beat up took on a life of its own yielding benefits to Labor that must have been beyond its wildest hopes. The media again did not emerge with honour.

Hansonism was and still is a threat to the dry cause. She is a populist, playing on fears and offering glib solutions to both real and imagined problems. Dries might sympathise with her demand for law that is blind to ethnic origin and welcome her dislike of politically-correct injunctions against free speech, but for the rest she is wet. In most of what she claimed, Hanson was wrong. She was not, however, the evil character or influence that self-righteous and/or Machiavellian cynics portrayed her as being. Her courage aside, she was but an ordinary person who had set herself a task that was past her understanding. Very many people got very sick of being told that she was only a fish and chip shop proprietor!

Following the Republic referendum, Katherine Betts, identified a resentment that was in its nature likely to influence more than attitudes to republicanism. She wrote:

> This survey shows that economic class and region were both associated with attitudes to the referendum; better-off, better-educated people in inner city suburbs were more likely to vote yes and poorer, less well-educated people in outer suburbs were more likely to vote no. Trust in political institutions was also important; the more people trust Government and political parties the more likely they were to vote yes. However, another factor has a stronger effect on the vote than either economic class or trust, and it is attitudes to the new cosmopolitan agenda developed in the Hawke and Keating years.
>
> Economic and locational variables can be thought of as one set of causes of the outcome of the referendum and attitudes to the cosmopolitan agenda as another. There is an overlap between the two sets but the overlap is only partial, and the effect of support for the cosmopolitan agenda is stronger than the effect of economic circumstances or region. The effect of trust is mid-way between the two major sets.[503]

If these attitudes were sufficiently strong to cause people to vote against a republic, then they were sufficiently strong to cause them to vote against the major parties.

Betts' survey (see appendix) indicated that:

- The electorate thinks Australians should have closer relations with Asia and this might mean that it is not unhappy with the elements of globalisation even if they have been taught to dislike it by name.
- The rights for minorities to which the respondents objected were only the minorities' exclusive rights, that is, their privileges.
- The electorate believes that immigration (and probably also imports) affect unemployment adversely.

Only the last was a problem for dry policy and it was an old one, whereas voting behavior was affected by a political agenda that was so broad that it might fairly be referred to as cultural.

Straw houses and beat-up crises

Fashions in disaster change frequently. Since World War II we have been told that we will die young because we are ingesting too much salt, sugar, saccharin, cholesterol, caffeine, steak, tinned baby food, junk food, eggs, vegetables sprayed with weedicide,

[503] Katherine Betts, *People and Place*, vol 7, no 4, page 32

fungicide and insecticide, fish with high mercury levels, monosodium glutamate and alcohol; and too little fibre and too little fish. We might also die young because we breathe tobacco smoke, lead, alumina dust, sulphur dioxide, hydrogen sulphide, furnace smoke and motor car exhaust fumes. We have been told to get more exercise but not in the sun, drive in a more satisfactory manner and never touch opiates. Radiation from visual display units and later mobile telephones was to have killed us, if the asbestos in the ceiling did not do so first. We have been threatened by, overpopulation, electro-magnetic and atomic radiation, an energy crisis, depletion of non-renewable resources, acid rain, AIDS, global cooling and then warming, holes in the ozone layer and most recently genetically modified organisms. Etc, etc, etc. Yet Australians have never lived longer and in better health than now. Opposition to economic freedom is also based substantially on predictions that may not come to pass.

Dries' opponents set about the demolition of several straw houses. They almost routinely accused economic rationalists of having unlimited faith in markets. On the contrary, Dries have had a lot to say about the phenomenon of market failure. Have not their opponents noted what they have said about regulating open-access goods (such as fish stocks), regulating to reduce transaction costs (such as prudential supervision of banks and food standards), developing trade practices law for unnatural monopolies and pricing caps and regulations for natural monopolies (such as rail lines)? Dries have never proposed anarchy, but fought hard for citizen-friendly rules. They understand that liberty is not license.

Recognition of the imperfect nature of markets is part and parcel of the economic tradition. In 1776 Adam Smith observed that:

> People of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public or in some contrivance to raise prices.

It has been Government connivance in this sort of behaviour that has most offended Dries.

With even less excuse, opponents accuse Dries of favouring the interests of businesses above consumers. Again on the contrary, Dries have consistently advocated the competition and freer trade that empower consumers and opposed tax breaks, subsidies and monopolies that empower big businesses and big unions.

Globalisation is said to harm the poor in the poorest nations, yet those most basic measure of human physical well-being, average food consumption and longevity, have increased far more rapidly than population. As the world has 'globalised' (horrible word), developing economies have grown even faster than developed economies.

Some critics admit this tendency – it is difficult to deny – but say that it is not sustainable. The Club of Rome forecast in 1972 that the world would run out of copper in 1993, gold in 1981, lead in 1993, mercury in 1985, natural gas in 1994, petroleum in 1992, and silver in 1985.[504] However, wherever markets are permitted, whenever anything becomes less plentiful, it does not run out but becomes more

[504] WA Chamber of Commerce and Industry, *Free Enterprise*, 2001, p 19

expensive, causing less to be used and more to be produced. Commodity-producing Australians may wish that they had not, but the real prices of all commodities have fallen.

An extraordinary 83% of Australians believe that the rich are getting richer and the poor getting poorer.[505] In fact, from 1982 to 1997-97, while the wealthiest 10% of Australians have increased their real incomes by 12%, the poorest 10% have done so by 32%. The middle classes have not done as well, but all are getting richer.[506] Roy Morgan Research has not in 25 years of polling found more than 42% of its samples that believed unemployment would fall,[507] but fallen it has. There has always been pessimism in the Australian psyche that can be interpreted as backlash by careless or disingenuous analysis.

People who deign not to notice what Dries say on welfare policy, accuse them of advocating devil-take-the-hindmost competition, occasionally referred to as social Darwinism. Theory tells us that an absence of laws favouring some at the expense of others and markets in which outcomes are not predetermined will increase the living standards of the poorest people. Rather than rely on theory, Dries have, nevertheless, usually found it more effective to point to the fate of the poor and the wider divergence of wealth in countries where these conditions do not apply and they have done so consistently.

Contrasting the economic agenda favoured by Dries with a social agenda said to be opposed by Dries involves further misrepresentation. I admit that some Dries had been guilty of giving too little attention to the institutions that make a society, but that was much more the case twenty years ago and the sin was neglect not opposition.

Markets rest on a foundation of institutions. Some, however, are so basic to daily economic life as to go unnoticed unless they are absent, as they are in many parts of Africa today. Without the social order underpinned by institutions such as truth telling, civility, sobriety, respect for other's rights, the obligation to undertake work and save, and many more, markets simply cannot function. But Dries have never contended otherwise.

Another group of critics dislikes markets' impersonality. It is true that, unlike rulers, markets are not in themselves moral or immoral. For Dries their blindness to race, sex, wealth, political affiliation and all subjective measures of personal worth are their social virtue. They provide opportunities for morally discerning individuals to interact by known rules which to break is immoral and to uphold is moral. By permitting choice they make room for acts of generosity and morality generally. The autonomy that is impossible without stable rules is the distinction between vassals and citizens. (That is why my friends still call me wet for my support of Fraser's retrospective legislation to recover the bottom-of-the-harbour taxes.) Dries do not wish to settle every issue by voluntary market transaction and Wets do not wish to settle every issue

[505] Newspoll survey conducted in January 2000 quoted by the WA Chamber of Commerce and Industry, *Free Enterprise*, 2001, p 21
[506] WA Chamber of Commerce and Industry, *Free Enterprise*, 2001, p 21
[507] ibid, p 22

by command, but the way that each feels about the impersonality of markets influences where each group draws its line.

Often, when economic reform is proposed, dire consequences are predicted. Some eventuate, but the forebodings have an abysmal record. Unemployment did not rise with reduction of the tariff; it fell. Telecom's service standards did not fall with the entry of Optus and semi-privatisation; they rose dramatically. Following privatisation, electricity prices did not rise in Victoria; they fell. Bank margins are today lower not higher as some would have had us believe they would be.

Perhaps the most persistent and authoritative accusation with which Dries have had to contend is that their prescriptions prejudice communities. Given Dries' preference for decentralised authority and responsibility, the exercise of which requires cooperation at a local level, it is also hard to believe that their effect upon autonomous communities is not positive. It is, therefore, tempting to dismiss the particular accusation as nonsensical but it is widely made and sometimes by people with no obvious axe to grind.

It is certainly the case that Dries' preferences for laws that do not discriminate by race, industry or whatever is deleterious to those communities that owe their existence to privileges, but privilege can be exercised only at the expense of other communities. Since favouritism is inefficient, there is less to go round. And, since it is unfair, inter-communal resentment is encouraged. Dries argue merely that the cost of preserving these communities by these means is too high. Some assert that Governments should channel economic change. Dries ask in what direction and who will guard the guardians?

The family is the most fundamental community. Despite much theorising and experimentation from Plato on, nobody has yet devised an equally satisfactory alternative means of nurturing and civilising the young. Dries, who question the ability of the state to undertake any detailed and variable activity well, have been unequivocally pro-family, if only because they see no competent alternative.

Much of the growing opposition to the freedoms the Dries had advocated was directed to positions that the Dries had never held, often even opposed. It should have been possible to rebut that sort of criticism but as the decade progressed the will to do so flagged. In 2001 the Western Australian Chamber of Commerce and Industry wrote:

> The academic crusaders for economic liberalism of a generation ago are now largely silent.
>
> The think tanks which ardently promoted reform have now moved on to other areas or have lost credibility.
>
> And it is difficult to find more than a handful of reputable media figures willing to promote the cause.
>
> The economic reform agenda is in danger of fading away – and with it our chances of maximising sustained long-term prosperity.[508]

[508] WA Chamber of Commerce and Industry, *Free Enterprise*, 2001, p

Backlash against what?

Of the Governments to suffer the backlash, only Kennett's had a program of full-blooded reform. Only it at the time of its defeat was still practising what Thatcher called 'commitment politics'. Only of it, is it not possible to say that it was defeated because it had lost direction. Only it did not suffer a landslide. The Coalition in Victoria had won more seats than Labor but had been unable to govern only because Kennett was unable to work with three independents. Yet the Victorian election, particularly the adverse result in rural Victoria where the Government did do very badly, was the one that most obviously spooked the Federal Coalition Parties.

While not denying that the Kennett Government's breakneck reforms cost it some votes, we need to take into account all the other causes of its defeat to see if it might have survived another term if one or more of these had not contributed. There was in 1999, when nothing credible was advanced to indicate that the Bracks Labor Party was either dishonest or incompetent, a sufficient catalogue of reasons not to vote for Kennett to have seen most Governments routed. What is more, Bracks gave the electorate few undertakings to reverse the Kennett policies. The conclusion that Kennett would have lost more heavily had he abandoned his dry policies is beyond proof but, when the other ways that Kennett offended his electorate are weighed, it is reasonable.

Thus, in Victoria as elsewhere, reform fatigue's dominance of voter attitudes must be questioned. Everywhere, it had surely been unwise to talk down to people whose self-images were those of self-reliant battlers. In Victoria as elsewhere, the reaction was evident before Hanson tapped it, and it had been boosted hugely when, rather than offer answers to her assertions, her critics talked down to her and by implication to those who shared any of her views. Did a backlash need more?

There had, however, been much more and it bears repeating. Everywhere, rural and upper blue-collar people tend to be socially conservative, honouring family ties and personal responsibility. Independent as a point of honour themselves, they worried about rising levels of dependency. They worried about the declining status of marriage when it was being weakened by ideological attacks that portrayed it as a cauldron of incest, violence and financial pressures totally unlike their own marriages. They worried that the standards of right and wrong behaviour that they tried to teach their children were being undermined at school and in the media. They bitterly resented politically-correct barriers to their expressing their concerns. No one frequenting such places as building sites, wool sheds and grain-terminals could doubt the resentment of these people.

It is true that people do not on the whole like having their privileges abolished, but voters are not utterly venal, they do to some extent assess public policy by asking will future Australians benefit? If voters are feeling alienated rather than disadvantaged, then politicians will gain more at less cost to their budgets by addressing their alienation rather than their material wants, yet Commonwealth general government spending increased by 12.6% in 2000-01[509] with more promised by Labor. As the

[509] *TheAustralian Financial Review,* November 10-11, 2000.

2001 Federal election approached the political parties seemed not to have considered the possibility that voters might despise the briber while accepting the bribe.

If such reform fatigue that there is has been encouraged by patently false claims about the nature and consequences of the reforms, might not the voting public again respond to the sort of principled advocacy that it heard in the late 1980s? Reform itself needs again to be defended.

Politicians might note with electoral profit that the Governments that were most soundly routed have all been ones that had been perceived to have lost their way.

Chapter 17
Say not the Struggle …

Say not, the struggle naught availeth,
The labour and the wounds are vain,
The enemy faints not, nor faileth,
And as things have been they remain.
If hopes were dupes, fears may be liars;
It may be in yon smoke concealed,
Your comrades chase e'en now the fliers,
And but for you, possess the field.

AH Clough
(Used by Bert Kelly to keep my nose to the grindstone.)

By 1990, many of the economic policy changes that have featured here were accomplished and others were in train. During the 1990s, as a consequence of a program of phased reductions, protection continued downwards so that between 1991-92 and 2000-01 manufacturing effective-rate protection was reduced from 14% to 5% and agricultural from 12% to 6% in 1999-2000.[510] The Keating years saw the collapse of budget discipline but the beginning of the competition policy regime. Labour market reform had had to await the Howard Government when the Senate frustrated much of it. The tax reforms proposed by Keating in 1985 had had to wait until 1999, then to be badly mauled by the Senate. The Howard Government turned its reforming attention to the welfare system. Nevertheless, by 2000 the zeal that had sustained freedom's advocates had gone.

Spooked by the Hanson phenomenon and the Victorian defeat, politicians blamed the public, while the public blamed the politicians. *The Australian* published a widely acclaimed article by Paul Kelly, the author of *The End of Certainty*, that railed against the betrayal of the nation by the political class, a flawed Prime Minister and a weak Opposition leader. Their sins, he said, were cheap populism, lack of vision and subservience to the complaining class. Many of those who acclaimed the article were, however, the same people who made the self-serving demands to which flawed Prime Ministers and weak Opposition Leaders were alleged to yield.

Not just the will to reform had abated. The arguments that sustained freedom and had been so clearly expressed in the latter part of the 1980s had been corrupted. Government and Opposition rhetoric was by 2000 almost totally mercantilist. It is true that industry lobbies could no longer resort to the disingenuous campaigns that they had employed before 1983, but neither would the Prime Minister employ the economic arguments that Hawke had employed in March 1991.

The Australian reforms of the 1980s and early 1990s had been part of a worldwide phenomenon. They had more followed than led the spirit of the times but neither the *Zeitgeist* itself nor Australia's ability follow it had been chance. My personal hero, Bert Kelly, and many others had preached, nagged and recruited with the possibility

[510] Productivity Commission 2001, *Trade and Assistance Review 2000-01,* Annual Report Series 2000-01, AusInfo, Canberra, December.

of such reforms always in mind. If such a period of exceptional Government is to be repeated, then leaders – politicians, think tanks, academics, and business and trade union officials – must cause it to be repeated.

When Pitt and Acton adverted to power's tendency to corrupt they, like Jean-François Revel, had in mind not money but power – not the occasional politician who feathers his nest at public expense but authority knowingly misapplied for political gain.

It is time to remind ourselves of the definition of corruption that I chose at the outset. It was:

> In a civilised efficiently alert democracy, you have to be a fool to commit the major felonies punishable by the law: breach of trust, peculation, embezzlement, influence peddling. So in order to gauge the extent of corruption in our own kinds of liberal society, we need to look beyond the classic offences.
>
> Being 'corrupt' means somehow misapplying political or administrative power, whether directly or indirectly, outside its proper sphere, for one's own financial or material advantage or in order to distribute the gains among one's friends, colleagues, relations, or supporters. When a minister grants a subvention to an association of dubious utility, even when he observes all the rules in doing so, he is committing an abuse, especially if it turns out that the beneficiaries of the subvention are his personal or political friends. A subvention of a million Francs, for example, is the equivalent of a year's profits for a thriving business. Multiplied by some thousands of instances (and by sums mostly very much greater), this act amounts to a levy imposed on the labours of the producers, in favour of the occupants of the power structure. The further the system extends, the heavier the hidden tax on production and the less profit and employment. Even if legal appearances are saved in these transactions, it may be assumed that democracy is not. The national inheritance is diverted into private or partisan uses, causing a pernicious drain on the general economy. No doubt the good Minister who performs this little service for his henchmen has no sense of being dishonest – and that is the most serious thing about it....the greater the role of the State the more numerous the opportunities for corruption.[511]

Until ministers who knowingly advance political interests to the disadvantage of national interests come to see that their behaviour is corrupt, good Government will remain difficult to achieve and bad Government will be about as common as Cabinet meetings.

Statesmen undoubtedly experience temptations with which we do not have to cope and none who achieves authority totally avoids being corrupted by them. A political system that was not criticised would be extremely dangerous, but let us not pretend to be too holier than they. We who have not possessed any considerable power should not imagine that, if we had, we could have escaped power's insidious influences. The democratic political process that overlooked us is not totally blind to quality and we can be fairly sure that we would have performed even worse than those who reached democratic political heights. Nevertheless, some governments are much better than others and political morality (like any other) may be buttressed. The more readily the

[511] Jean Francois Revel, *Encounter*, March 1987

public recognises misapplied authority, the less likely politicians are to misapply it. There is no task more enduring or more worth the effort required than aiding that recognition.

The civil society favoured by Dries is that of its original Lockean meaning – an often better more-free alternative to Government coercion. The rules that permit a society to be half-decent are fragile and need constantly to be defended.

Like many of my generation, I was once fascinated by the Weimar Republic's collapse into tyranny. The causes of that included inflation, public debt, economic stagnation, unemployment, xenophobia, concentrated authority, discriminatory laws, propaganda and political correctness, a pervading sense of grievance, unfounded fears encouraged by scaremongering, jingoism, and the tendency to allow ends to justify dubious means. It was not because we are an inherently superior people that, when Australians heard the Siren calls of National Socialism and Communism, daemonic screams of hatred raised against trivial injustices by fellow Australians and the braying about our own self worth, most of us were mildly sceptical. We mostly rejected the flawed philosophies, the antipathy and the disdain because the civilising institutions we practiced seemed, in spite of the Great Depression and the war, to be sound. Upholding these is not a matter of preference but of duty. We owe the next generation a society with the institutions that cause Governments to govern even-handedly and permit markets to operate fairly and efficiently.

If the period of exceptional Government is to be repeated, then politicians true to their trust must cause it to be repeated. Obviously, politicians owe their ultimate loyalty not to faction, party or interest but to the whole state or nation. It is less obvious when and to what degree the individual should put aside the rules of political cooperation. Those who defy the party system, unless they are insanely self opinionated, live in fear of their own serious error. They may, however, legitimately console themselves with the knowledge that when they know that their stands conform with mainstream informed opinion, then and only then the Prime Minister is at least as likely to be wrong as they are themselves.

Unpopular advice emanating from such conventional sources as Treasury and the Reserve Bank has a high a high probability of being sound. The MPs who will chance their arms defending economic rectitude, as both Howard and Keating did successfully for financial deregulation, may do great service but few battles are so directly won. Service is more often done by taking sound advice and by slow degree making popular wisdom of it. Therefore, the success of a political cause is not determined by just the ability to devise workable policies but more fundamentally by the ability and willingness of leaders to woo and win support for policies that are initially unpopular.

In Orwell's imaginary England of 1984, 'Newspeak' was shorn of all capacity to convey ideas inimical to the prevailing ideology, making real political debate impossible. In the real world too, politically-correct euphemisms have crowded out the expression of essential ideas. Australia's economic fortunes in 2010 are being determined by what governments do today and also, in say 2020, by what people say today – by the ideas that contend. Politically-significant words, such as democracy, liberty, equality, equity, civilisation, honour, justice, morality and peace need to be

rescued from lexicology's garbage heap, as do their ugly sisters, tyranny, injustice etc, to have their precise meanings restored and their usage in popular debate accepted.

There is a lot of ruin in nations based on sound traditions, but the 20th century had evidence enough that they are immune neither from precipitous ruin nor sad decline.

Bert Kelly understood these things, as did Ref Kemp, Alf Rattigan and several more now dead and still living. These Dries (by any name) were, nevertheless, members of a relatively small band. The central point of this account is that at least for a time they prevailed. Their agenda – spelt out in chapter 4 – was substantially achieved by persistence and increasing sophistication. Today, the nation benefits. Political and economic lags are long and another generation's fortunes turn upon what we do now.

Appendix

	Commonwealth Budget Balance $ millions	Def/Surp /GDP	Inflation	Unemp-loyment	Eco'mic Growth	Prod'tivity growth Prev cycle	Effective Protection Mnfac	Agrclt
McMahon								
1971/72:	$ 134 deficit	- 0.3%	6.5%	1.3%	4.8%		35	21
1972/73:	$ 696 deficit	- 1.5%	8.1%	2.0%	4.0%		35	14
Whitlam								
1973/74:	$ 263 deficit	- 0.4%	13.0%	1.3%	4.9%	1.6% pa	27	13
1974/75:	$ 2483 deficit	- 3.7%	16.9%	4.1%	4.2%		28	8
1975/76:	$ 3579 deficit	- 4.5%	12.0%	4.5%	3.4%		28	9
Fraser								
1976/77:	$ 2685 deficit	- 3.0%	13.5%	5.3%	2.1%		27	9
1977/78:	$ 3260 deficit	- 3.3%	8.0%	6.3%	1.6%		26	13
1978/79:	$ 3387 deficit	- 3.0%	8.7%	6.3%	5.2%		24	10
1979/80:	$ 1957 deficit	- 1.5%	10.8%	6.4%	1.8%		23	7
1980/81:	$ 987 deficit	- 0.7%	8.7%	5.4%	4.2%		23	8
1981/82:	$ 507 deficit	- 0.3%	10.7%	6.8%	2.0%	1.3% pa	25	9
1982/83:	$ 4512 deficit	- 2.5%	11.1%	10.2%	(0.4%)		25	17
Hawke								
1983/84:	$ 7987 deficit	- 3.9%	4.0%	9.1%	8.9%		22	11
1984/85:	$ 6696 deficit	- 3.0%	6.6%	8.6%	5.2%		22	10
1985/86:	$ 5636 deficit	- 2.3%	8.4%	7.7%	1.5%	1.2% pa	20	12
1986/87:	$ 2631 deficit	- 1.0%	9.2%	8.0%	5.0%		19	19
1987/88:	$ 2061 surplus	+ 0.7%	7.1%	7.4%	4.3%		19	11
1988/89:	$ 5893 surplus	+ 1.7%	7.6%	6.1%	5.5%	0.8% pa	17	8
1989/90:	$ 8036 surplus	+ 2.1%	7.7%	6.7%	2.2%		16	7
1990/91:	$ 1907 surplus	+ 0.5%	3.4%	9.4%	(1.8%)		15	13
1991/92:	$ 9339 deficit	- 2.3%	1.2%	11.0%	2.0%		13	11
Keating								
1992/93:	$14571 deficit	- 3.4%	1.9%	11.0%	4.2%		12	10
1993/94:	$13666 deficit	- 3.0%	1.7%	10.0%	4.7%	1.1% pa	10	11
1994/95:	$11627 deficit	- 2.6%	4.5%	8.4%	4.0%		9	11
1995/96:	$ 5001 deficit	- 1.0%	3.1%	8.5%	3.9%		8	na
	underlying $10278 deficit	*- 2.0%*						
Howard								
1996/97:	$ 2550 surplus	+ 0.5%	0.3%	8.5%	4.6%		6	na
	underlying $4897 deficit	*- 0.9%*						
1997/98:	$16468 surplus	+ 2.9%	0.7%	8.2%	4.6%	2.4% pa	6	na
	underlying $1185 surplus	*+ 0.2%*						
1998/99:	$12705 surplus	+ 2.1%	1.1%	7.2%	4.1%		6	na
	underlying $5630 surplus	*+ 0.9%*						
1999/00:	$22171 surplus	+ 3.5%	3.2%	6.6%	3.72%		5	na
	underlying $12671 surplus	*+ 2.0%*						
2000/01	$			6.7%			5	na

Personal Communication from Ian Castles concerning Changes in Australia's relative living Standard

The OECD has recently (June 2001) published Angus Maddison's 'The World economy: A Millennial Perspective', which presents annual estimates of GDP per capita, all properly expressed in a common currency (1990 US dollars) using the purchasing power parity method. These estimates are highly regarded – those published by the World Bank and other international institutions would I believe be very similar.

I have taken as the 'rich country group' the whole of Western Europe, Maddison's 'western offshoots' (US, Canada, Australia and NZ) and Japan. This corresponds closely with the 'old' OECD (i.e., before the admission of Korea, Mexico and some transition countries) less Turkey.

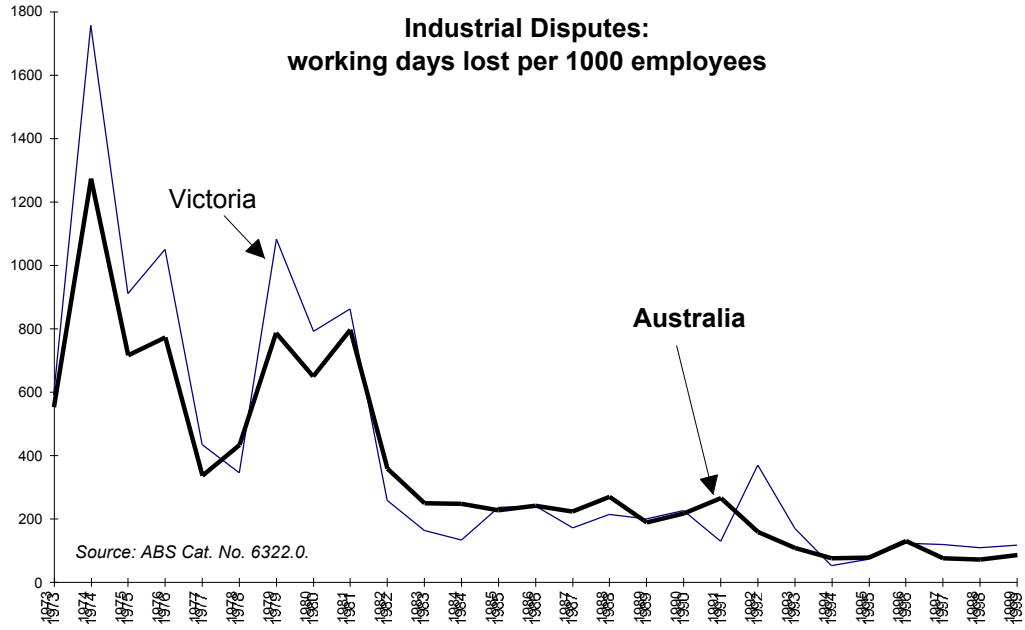
On this basis, Australia's per capita GDP expressed as a percentage (i.e., the index of Australia's per capita GDP taking the rich country group as 100.0) declined from 132.3 in 1950 to 99.9 in 1975.

From 1975 onwards it will be best if I give you the figure for every year, so that you can follow the trend and be in a position to defend whatever choice you make for the starting year of the comparison:

1976, 99.0; 1977, 96.1; 1978, 94.4; 1979, 95.3; 1980, 95.6; 1981, 96.9; 1982, 95.7; 1983; 92.3; 1984, 93.6; 1985, 94.3; 1986, 92.6; 1987, 93.1; 1988, 92.1; 1989, 91.8; 1990, 90.7; 1991, 88.6; 1992, 88.6; 1993, 90.8; 1994, 92.1; 1995, 93.2; 1996, 93.4; 1997, 93.4; 1998, 95.0.

Maddison's figures end at 1998, but on the basis of estimates by IMF staff published in the twice-yearly 'World Economic Outlook', it seems that Australia's ratio to the rich country average went up by a further 0.5 points in 1999 but then went down by about 1.0 in 2000.

In short, Australia's position against the rich country average can be seen with hindsight to have reached a low point in the early 1990s recession, but to have recovered by 5 percentage points or so since then. An earlier low point was 1983, and Australia seems to have at least held its own in relative terms since then, after many decades of decline.


Industrial Disputes:
working days lost per 1000 employees
Victoria
Australia
Source: ABS Cat. No. 6322.0.
1800
1600
1400
1200
1000
800
600
400
200
0

The Survey from Katherine Betts' article
Katherine Betts, *People and Place*, vol 7, no 4, page 37

The Questions:
The sample size in each case was of between about 1600 or 1700. Only the outlying opinions, that is those most likely to hold the view strongly enough to influence how they vote, are shown. In every case the majority held no strong view on the question but in every case there was a significant minority of strongly held opinions.

Aboriginal land rights have	
Not gone nearly far enough	108
Gone much too far	453
Building closer relations with Asia has	
Not gone far enough or not gone nearly far enough	434
Gone much too far	152
Government help for Aborigines has	
Not gone far enough or not gone nearly far enough	338
Gone much too far	423
Equal opportunities for migrants have	
Not gone far enough or not gone nearly far enough	225
Gone much too far	224
Immigrants take jobs away from people who are born in Australia	
Strongly disagree	131
Strongly agree	230
People who come to live in Australia should try harder to be more like other Australians	
Disagree and strongly disagree	415
Strongly agree	316

Time Line

1929
Brigden Report

1932
Ottawa Agreement

1944
Bretton Woods fixed exchange rates implemented

1949
Menzies Government elected

1952
Import licensing introduced

1958
Bert Kelly elected to the Federal Parliament

1960
An end to import licensing

1962
Rattigan appointed to the Tariff Board
Creation of SAA to grant 'temporary' assistance

1965
Vernon Report

1967
Kennedy Round

1972
Whitlam Government elected

1973
25% across the board tariff cut
The Crawford Report recommending the structure of the IAC

1974
Dairy subsidy withdrawal
Green Paper on Agriculture

1975

Fraser replaces Snedden
Industry Assistance Commission established
Bass bye-election
Jackson Report
Asprey Report
Fraser Government elected

1976

17.5% devaluation

1977

Government tightens TCF quotas and increases powers of TAA.
Draft Report on TCF Industries released

1979

Thatcher Government elected in the UK

1980

4 wheel drive success
Government rejects IAC's 'post 1984' motor recommendations

1981

1981 Airline Bills carried despite Dries

1982

Davidson Report
General Reference findings rejected
CER with New Zealand

1983

First Hawke Government elected
Peacock leads Opposition
Moving peg introduced to exchange control
Economic summit
Cost cutting mini-budget with publication of forward expenditure estimates
Currency floated

1984

Lange/Douglas Government elected in New Zealand
Martin Committee Reports
First forward estimates published
Uhrig Report.
The Temporary Assistance Authority is abolished
Second Hawke Government

1985

Tax Summit
Howard becomes Opposition Leader
Expenditure savings statement

1986

The last interest rates, those on housing, deregulated
Keating's 'banana republic' interview
Moodies downgrades Australia's AAA credit rating
Cairns group formed
Uruguay Round begins in Punta del Este

1987

Joh for Canberra Campaign
Button addresses protection for the TCF industries
Expenditure savings statement
The Commonwealth budget moves to surplus
Third Hawke Government

1988

Adelaide by-election
Lifted restrictions on foreign investment in oil and gas projects.
Motor import quotas abolished
Greiner Government elected
Ministerial statement cuts tariffs, reduces company tax to 39%, and taxes superannuation
HEC Scheme introduced

1989

Peacock becomes Opposition Leader
Expenditure savings statement
Domestic Wheat market deregulated
Hughes Report
Garnaut Report
APEC formed

1990

Bolger/Richardson Government elected
Fourth Hawke Government defeats Peacock led Coalition
Hewson becomes Opposition Leader
Termination of the Two Airlines Policy
Automotive industry submission to IC accepting tariff reduction if other costs are addressed.
Legislation in NSW and Arbitration Commission guidelines permitting Enterprise Bargaining
Commonwealth Bank partially privatised

1991

Prime Ministerial Statement on Garnaut recommendations reduces tariffs on TCF to 25% and motors to 15%. The last quotas are abolished from 1993.
Centesimus Annus
New Zealand's *Employment Contracts Act*
Fightback launched
. Keating replaces Hawke as PM
The Commonwealth budget again retreats to deficit

1992

Keating's *One Nation* Statement
Optus begins to compete with Telstra
Superannuation Guarantee Levy
Qantas floated
Kennett Government elected

1993

Keating returned – Fightback defeated
Hilmer Report
Uruguay Round completed
Remaining TCF quotas abolished
Native Title Act

1994

Downer becomes Opposition Leader
Keating's *Working Nation*
Competition Policy accepted by CoAG

1995

Howard becomes Opposition Leader
Australian Governments at CoAG agree to the National Competition Policy

1996

Howard Government elected and Hanson's win in Oxley
Reith's *Workplace Relations Act*
Extension of competition laws to the professions.
Commonwealth Government budget surplus
Legislation to sell one third of Telstra
Kennett hands industrial relations powers to the Commonwealth
High Court's Wik Judgement

1997

Howard retreats on PMV and TCF
Wallis Committee Reports
Work-for-the-dole legislation
Mortimer Report
Blanket opposition to foreign ownership of financial institutions ended
Restrictions on entry to the telecommunications market end.

1998

Productivity Commission formed
Distribution of the broadcast spectrum
Howard wins the second GST election

1999

Seattle meeting of WTO
Ralph Report
Kennet defeated

2000

Victorian dairy industry accepts deregulation.
ACCC ruling on access to telecommunications network.
Debacle at the WTO meeting in Seattle
The McClure Report

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