Editorial —

A CRISIS OF MORALITY

The present situation in Australia is widely referred to as an "economic crisis". In fact, it is nothing of the kind. There is no economic crisis. There is inflation, threatening to accelerate: that is bad. There is unemployment — although not nearly so great nor so serious as indicated by the bald statistics: that is bad. But to suggest that a country in which most of the people are enjoying extraordinarily affluent living standards is suffering from an economic crisis is plainly absurd.

Australia is, in truth, a land overflowing with milk and honey — one of the uniquely fortunate few of the earth. One doesn’t have to dig into the statistics to substantiate this assertion. One has only to use one’s powers of observation — to walk through the large city stores or the regional supermarkets and see the staggering range and variety of goods, foods of all descriptions, clothing, gleaming household appliances — to realise what a wealthy nation, what a favoured people we are. It makes one wonder what we are all grouching about and what we really expect.

There are, admittedly, some groups which are not sharing in the general well-being — for instance, the unemployed, the elderly in retirement. Both have been cruelly and unfairly hit by inflation, by living costs which continue to soar and bite deeply into their living standards. But who cares about them? Most of the rest of us, far from satisfied with the high standards we already enjoy, are consumed with the desire to raise them still further, to acquire for ourselves an even greater share of the nation’s wealth, leaving less for the unemployed, less for the old and others in the community unable to protect themselves. We have come to take it as a God-given right that our standards of living next year should not merely be main-
tained but should be substantially higher than this. And if they are not, we let the world know about it.

Oliver Twist persisted in asking for more because he was hungry. We persist in trying to get more and more for ourselves because we have become greedy. The affluent society is also the acquisitive society. The universal clamour for more, which has resulted in a no-holds-barred, jungle-like conflict for larger and larger shares of the available cake, is the root cause of our economic difficulties and social discontents, of inflation and unemployment.

Inflation is now not primarily an economic problem at all. It is primarily a moral problem. We are suffering not from an economic crisis, but rather from a crisis of morality. Unless we learn to curb our avarice, to restrain our insatiate desires, to act with old-fashioned honesty, responsibility and decent moderation, inflation will continue, unemployment will continue, and there is nothing that any Government — Liberal or Labor — will be able to do to cure either. The root cause of the present inflation lies not in the size of the government deficit or that arcane concept, the supply of money — as economists, the media and even politicians would have us believe — but in the unbridled demands of most sections for higher and still higher incomes. It is this that is largely responsible for pushing prices up, causing living costs to soar, for raising industrial costs and thus making it more difficult for our industries to expand and compete and provide jobs for the jobless.

It is not an economic crisis with which Australians have to contend: it is a moral crisis.

Few of us could claim to be entirely blameless. Like greedy children at a party, practically every section of the community is participating in the unedifying scramble to snatch more for themselves. The extortionate, irresponsible demands of some trade unions, because they are backed by actions which bring essential services and industries to a standstill, and thus cause great inconvenience to the public, claim most attention. But are they any more reprehensible than the self-centred demands of some already richly rewarded doctors for a still larger share of the national cake? — demands which have helped to send the costs of health care spiralling from $149 per head of population in 1970/71 to $504 in 1977/78 (adjusted for inflation, $240): an unbelievable increase! What justification, for instance, can there be for the reported earnings of $100,000 a year, and more, of some radiologists for 15 hours of work a week? What has happened to the sense of service of some representatives of a once-revered profession?

Are the trade union demands and actions any more reprehensible than those of a section of the presumably highly educated teaching profession who, uncaring of the needs of their students, and apparently oblivious of the example they are setting them, will go on strike at the drop of a hat? Teachers' strikes! Who, only ten of so years ago, would have thought such a thing to be possible?

Are irresponsible union demands any more reprehensible than those of members of other professional groups — lawyers, accountants, for instance, who aid and abet the tax evasion racket and who seem able to earn extraordinarily high incomes for the services they render the community? Or than those of academics who enjoy exceptionally favoured and protected conditions under the absurdly wasteful system of "free" tertiary education, but who constantly cry poor. Or than the activities of self-employed skilled tradesmen such as plumbers, electricians, painters and TV
maintenance men, many of whom are demanding exorbitant payments — sometimes greater than professional fees — often for very little? Is it to be wondered that the mass of pay-as-you-earn wage and salary earners wish to break free of the constraints imposed on their incomes by the indexation mechanism?

The "fast buck" mentality, the disease of "get-rich-quick", which used to be confined to a few less scrupulous, less admirable members of our society, seems to have spread far and wide through the community.

The most odious symptom of this disease is the alarming spread of the practice of tax evasion — a practice to which the great majority, the pay-as-you-earn workers, are unable to resort. Such is the blindness which seems to have overtaken us that many of those who are able to avoid paying their proper share of taxes would be among the first to condemn the actions of strikers when they themselves are personally inconvenienced by them.

Tax evasion has become a big industry, running into hundreds, perhaps thousands, of millions of dollars a year. Do those people who are patting themselves on the back for their ingenuity in beating the Tax Commissioner ever give a thought to the consequences of their actions: that by avoiding paying their proper share of taxes would be among the first to condemn the actions of strikers when they themselves are personally inconvenienced by them.

What a mockery that makes of economic justice! Tax evaders, no less than the rest of us, depend on the services for which taxes are levied. They couldn’t do without the institutions of government, or the protection of the police and the courts, or roads and water, schools and hospitals. They are happy to take advantage of "free" education for their offspring at the universities, paid for by other people mostly with lower incomes. To put it bluntly, but not inaccurately, the tax evaders are indulging in a sophisticated form of theft. They are accepting benefits for which they are not paying. They are far more to be condemned than those who stop work to extort more pay — totally inexcusable though the majority of strikes undoubtedly are.

The general notion that it is within the competence of Government to stop inflation, to cure unemployment and restore rapid, sustainable economic growth, while the competitive scramble for higher and higher incomes persists, is surely the great delusion of Australia today. It is a delusion which seems to be harboured by politicians and their advisers as well as by the general public. Our problems have to do with values and morality as much as, or even more than, with economics, narrowly regarded.

But if the moral dilemma is to be solved, and a sense of responsibility, fairness and plain honesty are to be restored to our community life, the lead must come from the top. The leaders themselves must set an example. It is a sad truth that politicians, at all levels of Government, as well as some businessmen, have not been entirely free of the greed which seems to have over-run so much of the community.

If any regard that as an unfair criticism, they should look at the lavish, indeed in some respects outrageous, superannuation benefits which parliamentarians, at Federal and most State levels, have awarded themselves, and which apply also in the higher echelons of the public service. Only recently, large salary increases were accepted by Federal and State Parliaments and were applied also to senior public servants, judges and the managements of public utilities. If it be contended that these increases were recommended by an independent salaries tribunal — as they were — and were
justified in order to keep the so-called "relativities" of the recipients in line with the general upsurge in incomes through the community — as they no doubt also were — the answer is that, if inflation is to be arrested, the people at the top cannot escape the responsibility of setting an example of restraint to the rest of the community — even to the point where it hurts.

It seems strangely illogical and inconsistent for the Commonwealth Government to argue, as it has done, in indexation hearings before the Arbitration Commission, for no wage increases and at the same time accept substantial salary additions for itself. "What is sauce for the goose is sauce for the gander."

Two further examples will serve to illustrate the need for self-sacrifice at the top in the battle against inflation.

Among the recipients of the recent salary increases were the members of the Bench of the Conciliation and Arbitration Commission. These increases ran into thousands of dollars a year for each member and, in the case of the President, amounted to around $4,500. The members of the Commission cannot, of course, be held responsible for the additions to their remuneration, which were recommended by an independent body. But the fact that they received them could only serve to gravely weaken their moral authority in applying much-needed restraint to the wage demands on which they must adjudicate. The mass of wage earners could hardly be blamed if they were to point out that their claims, even if granted in full, would amount to very much less than the salary increases of the members of the wage-fixing body itself.

The second example concerns the recent Telecom dispute. It must have come somewhat as a shock to many people who followed the course of this confrontation on their TV sets, to learn one evening that the top management of Telecom had not long previously received salary rises of the order of 20 to 25 per cent, with corresponding increases in expense allowances. The management rightly refused to negotiate on the demands of Telecom employees for an increase of 20 per cent — which would, by a long way, have breached the indexation guidelines. But their stand would have had much stronger moral authority had they not received, a short time previously, such large additions to their own incomes.

What is needed more than anything else to solve Australia's problem is strong leadership, backed by stern, self-sacrificing example from those in high places. There must be a determination to achieve consistency and fairness right through the community, from the highest to the lowest. If it is to overcome inflation and reduce unemployment, the Australian Government must restore a sense of moral purpose and rectitude in the community, and it must start with itself. This is more important than minimising the Budget deficit and setting so-called non-inflationary targets for the money supply — targets which in any case cannot be achieved while incomes continue to spiral. It can hardly be denied that if there were a self-imposed standstill on incomes for a period of 12 months — and this would inflict no great hardship on most of us — we would have virtually succeeded in breaking the back of inflation.

The great Cambridge classical economist, Alfred Marshall — perhaps the greatest of all economists — wrote many years ago, in the opening sentence of his monumental work, "The Principles of Economics", "Economics is concerned, on the one side, with the study of Wealth, and on the other and more important side, with the study of Man."

(The italics are ours.) That is worth thinking about. It is highly relevant to our present situation.
THE BUDGET — 1979/80

"THE TIRED WAVES VAINLY BREAKING
Seem here no painful inch to gain"

(Arthur Hugh Clough)

The second Howard Budget is, to say the least, disappointing. Apart from encouragement to a few sections of business, there is little or nothing in it, or in the prospects it holds out, to stir the blood of the average Australian.

But that is not the main cause for disquiet. The real reason for concern, indeed alarm, is that, on the Budget's own projections for the year ahead, 1979/80 will bring the Government no nearer to achieving the economic goals it set for itself when it came to office nearly four years ago — the defeat of inflation, the reduction of unemployment, the resumption of rapid growth and, above all, the cutting down to size of "Big Government".

The Budget predictions are that inflation over the current year will be over 10 per cent, average earnings will rise by nearly the same amount, unemployment will not fall — indeed it could even rise — real Gross Domestic Product will grow by a meagre 2 to 2.5 per cent, and the total size of the public sector at 38.3 per cent of GDP (though marginally lower than last year) will be greater than in the Whitlam years when, in the words of the first Budget of the Fraser Government in 1976, it was "bloated beyond belief". There is even no definite commitment on interest rates.

What has happened to the good intentions and brave ambitions of the Government? Why, after four years in office, has it made so little ground towards accomplishing its goals, goals supported by an overwhelming majority of the Australian people?

The Government might fairly plead — as it does — that its plans have been frustrated by decisions of the wage-fixing authorities with which it does not agree and over which it can exert little control. Until recently the Government has made no secret of the fact that it has never liked indexation and has gone along with it only in principle and only on the understanding that it would not be applied in full except where conditions merited — which would be seldom, if ever. (Now, inexplicably, the Government seems to have changed course. In a submission to the Arbitration Commission it appears to have accepted the principle of full adjustment of wages for price rises, other than those which result from government policies, such as oil pricing and indirect taxes — an egregious error in our view.)

The Government has pointed out, rightly, that inflation in recent months has been aggravated not merely by the rise in oil prices, but by booming export prices for meat and, to a lesser extent, metals, over which it has no control. But it has not been slow to take credit for itself for the improved economic climate and faster growth for which these price rises have been largely responsible.

When all allowances have been conceded to the Government, its failure to come
within sight of achieving its objectives is partly of its own making. It is traceable to a complex of causes in which a mistaken philosophy of economics has played no small part. Indeed, the 1979/80 Budget provides a striking illustration.

Over the last year or two, Government circles and economic commentators have exhibited an almost morbid obsession with the size of the Budget deficit and with the closely related increase in the money supply. Indeed they have talked of little else; it seems to have been believed that all problems will be solved if the deficit can be cut to the irreducible minimum and if the money supply can be contained. These attitudes have been the governing consideration in the construction of the 1979/80 Budget. The deficit is projected at $2,193 million compared with last year's actual deficit of $3,478 million. The more significant domestic deficit has been dramatically reduced to an estimated $875 million as compared with an actual $2,258 million last year.

No one will deny that, in the struggle against inflation, the size of the deficit is important. But is it all-important? Much will clearly depend on how the objective of minimising the deficit is achieved. The spectacular reduction of the deficit in the 1979/80 Budget has been brought about not by cutting government expenditure—which one would have thought would have been a first priority for a free enterprise Government—but by an enormous increase (18 per cent) in revenues from personal income tax resulting from the inflation of incomes (a predicted 9.5 per cent in average earnings) and from the massive proceeds of the oil levy stemming from the adoption of parity prices for Australian crude. The former will produce an estimated $15,128 million, $2,324 million more than last year; the latter a handy $2,057 million, $830 million more than 1978/79. Keynes' observation that, "Inflation is a mighty tax-gatherer" is appropriate to the first. As for the second, is it any wonder that the Government has moved so rapidly—some may say with unseemly haste—toward full import parity for local oil supplies. The original objective was that import parity prices should apply to increasing proportions of locally produced crude rising from 10 per cent in 1977/78 to 50 per cent in 1980/81; arrangements after that were left in the air. In other words, the impact of soaring world oil prices on the Australian economy, and thus on inflation, was to be phased in gradually rather than by a precipitous and dislocating jump, as has been the case.

In our view the broad strategy adopted in the Budget is wrong—on political as well as on economic grounds. In this Budget the Government, with the advantage of the huge oil revenues at its disposal, should have seized the opportunity to greatly reduce personal income tax as well as to cut substantially the size of Government spending. It has done neither. The removal of the surcharge—applying, in any case, for only seven months of the year—is pitifully inadequate. (Many commentators have, indeed, questioned whether there is any real reduction in taxes at all.) On the other side, public sector spending is to remain at its present "bloated" level, virtually unaltered. If the net effect of these measures were a larger government deficit, then that should have been accepted.

A big reduction in personal income tax would have had several advantages. It would have given a psychological lift to the rather depressed spirits of the Australian people—brought about, it should be added, more by the atmosphere of doom conveyed by the media, than from any legitimate cause. It would have boosted consumer spending and thus business prospects and employment. And,
most important of all, by putting more money in pay envelopes, it could be expected to lead to a moderation of wage claims and to pre-dispose the wage-fixing authorities to award smaller increases than otherwise. If the Government is to succeed in its primary objective of reducing inflation, then it must, by hook or by crook, curtail the continuing escalation of incomes. This is more important than the size of the Budget deficit, whose connection with movements in incomes is far from clear.

After four and a half years in office (by June, 1980) the Government will hardly have advanced at all toward its overriding goal of reducing Whitlam-type “Big Government”. The monolithic structure of Government spending seems to be made of granite and all that the Fraser Government has been able to do is to chip away at it here and there without making any perceptible impression. Now it almost seems to have become disheartened and to have given up the fight. At least the 1979/80 Budget would make one think so.

Why has the Government failed so manifestly in its efforts to cut “Big Government” down to size? The underlying reason is that it has not been prepared to put into practice a central precept of its own philosophy. Briefly, this is that the great majority of people in an affluent society, such as Australia, should be expected to look after themselves — which they are quite capable of doing — and that Government assistance should be confined, in the main, to the minority who, through no fault of their own, are unable to do so. The failure to apply this principle is to be seen most clearly in three areas — Health, Education and Welfare.

The socialistic Health arrangements, initiated by the Whitlam Government, have been, despite the Fraser Government’s efforts at reform, an unmitigated disaster. Indeed, they are a national monstrosity. In the space of a few years, health care expenditure has exploded from $149 to $240 (in real terms) per head of population and from 6 per cent to 8 per cent of GDP. Notwithstanding this quite incredible increase, how many of us feel that our health needs are now better catered for than in the early years of the decade? Most of us, it is safe to say, are bewildered and angered by the rapidly escalating premiums we are called upon to pay for health insurance. The basic reason behind this explosion of health costs is that “market” principles have been virtually abandoned, with predictable results. Doctors and hospitals have lost the incentive to minimise services and charges and the people have lost the incentive to moderate their demands on the health care system. There is only one way to effectively attack this monstrous state of affairs — the system must be dismantled and a completely fresh start made.

In Education, the abolition of fees in the tertiary field has led to an uneconomic expansion of universities and colleges of advanced education to cater for the large number of students only too happy to take full advantage of something “on the house”. It has also proved to be seriously inequitable, with the taxes of those on relatively low and moderate incomes contributing to the costs of education of children of higher income families. Some form of fee-paying should be reintroduced, to apply from the beginning of 1980.

The huge, costly system of government-provided Welfare, with its enormous army of bureaucrats engaged in the business of transferring income from one section of the community to another, needs a fresh and possibly revolutionary approach. Consideration should be given to some of the new ideas (such as those advocated by the influential Institute of Economic Affairs in England) based on a
guaranteed minimum income (or negative income tax) leaving the recipients free to choose how it will be spent.

At the heart of Australia’s economic problems lies inflation, as the Government rightly discerned when it came to power four years ago. Mr Howard’s Budget Speech states, “One persistent theme has dominated this Government’s conduct of economic policy since its election in 1975. This has been the uncompromising nature of its attack upon inflation as the fundamental and most enduring cause of the economic difficulties of the 1970s. Tonight I reaffirm the determination of the Government to maintain that attack.” In view of these bold words, it seems surprising that the Government is prepared to contemplate an inflation rate of over 10 per cent during 1979/80. After four and a half years it will have succeeded in cutting the inflation rate by some 4 per cent — barely 1 per cent a year. Hardly a record to get excited about!

Let there be no mistake: there can be no prospect of overcoming inflation while incomes are hitched to prices — in other words, while everyone (not merely the wage-earner) expects and demands that their real incomes should remain intact — no matter what. It is no coincidence that the supporting documents to the Budget predict an increase in 1979/80 in both prices and incomes of approximately the same amount — around 10 per cent. The highly disturbing thing is that the Government apparently accepts these rises as inevitable and as beyond its powers to do anything about. Yet unless something can be done about them, inflation will have to be accepted as endemic in the economies of the late 20th Century: and not only inflation, but also unemployment (which is attributed by the Government and most responsible economists to the persistent rise in the costs of employing labour).

That the continuing escalation in money incomes is at the core of the whole dilemma comes out repeatedly in the supporting papers of the Budget itself.

“‘There seems little doubt that indexation has perpetuated excessive real wage levels.’

“‘While excessive real wage levels persist high unemployment will be an inevitable concomitant . . . .’

“The need for wage restraint remains as important as ever if unemployment — particularly for juniors and the unskilled — is to be reduced.”

“Large sections of the work-force are still effectively priced out of jobs by the actions of others in maintaining the level of their real wages.’

In view of those uncompromising assertions one must express some surprise that the Government has virtually rejected tax reductions as a means of exerting restraint on rising labour costs. It remains to be seen whether its faith in cutting back the Budget deficit to the bone, as virtually the only effective weapon against inflation, will be vindicated by events.

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The intellectual predispositions underlying the Government’s thinking (as demonstrated not only in this Budget but, for the most part over its entire period of office) are open to serious question. Too much weight is being attached to the technical and theoretical fashions in economics. In the 1979/80 Budget the regard paid to the twin concepts of “the deficit” and “the money supply” is almost obsessional — to the point where practical common-sense assessments and judgments are virtually excluded.

Economics, in its practical aspects, has
to do, after all, with people and how the people react to the policies which are presumably introduced for their benefit. The great majority of people are unlikely to have their expectations about the course of inflation greatly affected by the size of the deficit; nor do they have the remotest understanding, or concern, about the mysterious M.3.

What they do understand, or at least can be made to understand, is that wage and salary increases invariably mean higher prices in the supermarkets; that one man’s wage rise can mean another man’s job; that more government-provided benefits mean that they will have to pay more in taxes. If they don’t by now understand these simplicities it can only be because of a failure of communication on the part of Government. The Fraser administration has not been notable for its success in this respect — but then neither has any other Government of recent times. It might be argued that, in the fight against inflation, it is more important to get these basic truths across to the people than to give undivided attention to the size of the Budget deficit.

Another underlying intellectual assumption of the Government’s approach, which must be questioned, lies in its belief in the efficacy of “gradualism”: that changes can only be effected slowly, bit by bit (shock assaults are out) and that if the changes are in the right direction all will come right in the end. The trouble is that we never seem to reach the end. Sometimes we appear to be making progress, we surmount one obstacle in the way, only for the ultimate objectives to seem as far off as ever. The reason is that the world doesn’t work like the policy-makers seem to assume — and wish that it did. Something always happens to upset their beautifully engineered, mathematically tailored, plans. The great Keynes expressed the fallacy in his famous and much repeated phrase: “In the long run we are all dead.”

What happened to Sir Robert Menzies’ bold undertaking, in the election of 1949, “to put value back in the Pound”? It was hopelessly destroyed within little more than a year of its making by an unforeseen war in Korea. What happened to the major long-range recommendations of the Vernon Committee Report in 1965? Before the ink was dry on the paper, they were made quite nonsensical by the explosion of exports and of capital inflow arising from the minerals bonanza. What happened to the Fraser Government’s hopeful predictions about inflation, interest rates, the money supply and the like in its 1978/79 Budget? They were undermined by OPEC and a boom in food prices. The long-range planning of the policy-makers assumes that these irritating, upsetting phenomena are abnormal and will not recur: but they always do.

The basic idea that the Government has pursued of “bearing down on” or “winding down” (to use its own terminology) inflation gradually has failed — and will fail. Something will always turn up to destroy the best-laid plans and good intentions.

What we must face up to is that inflation will have to be accepted as endemic in the modern economy unless the continuing rapid rise in incomes is arrested. On the Government’s own figuring there is no sign of that happening in the year ahead. The only hope would seem to lie in the Government taking the initiative in a great campaign of communication and education to reach the minds and hearts of the people. If it should cost $100 million or more, it will be money well spent.

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No Government lives up to its early promise. The Fraser Government has proved no exception. Led by a man of strong determined character and acute intelligence, it succeeded early on in identifying the crucial problem areas of the economy — which its predecessor lamentably failed to perceive.

Where it has gone wrong is in its over-reliance on the traditional policy mechanisms — the budget and the money supply — its fear of novelty and a strange lack of confidence in its own professed principles of economic liberalism. Also it has paid insufficient attention to the crucial importance of human attitudes — a common failing among the modern breed of economists.

If the Government looks afresh — and critically — at the basic assumptions underlying its economic strategy, the goals it set for itself in 1975 may yet not be beyond its powers of accomplishment.

Nevertheless, time is running out for the Government. There must be considerable doubt whether with its present policies and plans (as expressed in the Budget projections) the Government could confidently count on being returned to office at the end of 1980. It would be highly imprudent, in our view, for the Government to wait until August next year to introduce changes which would be calculated to regain public confidence and to restore its public credibility. That, coming so close to the election, could easily be interpreted by the electorate as a cynical exercise in political expediency — even though it was not intended as such.

As we see it, it will be imperative for the Government to introduce an interim Budget in the early months of next year, a Budget which would demonstrate to the people that the Government is the master of events and not the slave of circumstance.
LOOKING AHEAD: GOVERNING IN THE 1980s

Government failures in the 1970s

Boldness in reformist policies and programmes fired the imagination of voters in the heady times of the early 1970s. In this period of "Labor euphoria" a majority of Australian voters uncritically and unwisely accepted massive and increasing government spending as a means of achieving important social reforms. By 1975, however, the Whitlam Government's "socialist" (in the sense of providing for everyone) remedies had failed to eliminate poverty and destitution. In fact they had (arguably) redistributed income in favour of higher income earners (through "free" tertiary education, universal "free" health care etc.) without changing markedly the circumstances of under-privileged or lower income Australians. The people's earlier vision of easily-attained social reforms was soured by run-away inflation, explosive government expenditure and consequent rapidly escalating taxation.

Since the mid-1970s the tide of public opinion has swung strongly away from ever-expanding government as the means of solving national problems. Australians are now truly dismayed at the size of the public sector. They realize astutely that the number of public servants employed in government administration has little remedial impact on poverty, unemployment, the "housing problem" and the rest. Australians want a much smaller public sector and a return to greater individual responsibility in managing their personal and commercial affairs.

In recent years the Fraser Government has partly failed to capitalize on the prevailing anti-big government mood of the electorate. Total Government expenditure's share of the national product is as high as existed under Mr. Whitlam. Despite Mr. Fraser's philosophical commitment to smaller government, during his period of office there have been few successful attempts to transfer power from government back to the individual (by way of substantial tax cuts), to reduce government interference in the economy or to cut out excessive government regulations and restrictions on market operations in industries such as banking and the airlines.

Although ceilings have been imposed on the growth in employment in the federal public service, there have been feeble, unconvincing attempts only at cutting back the inflexible, massive administrative apparatus which is now part and parcel of Australia's public sector. Mr. Fraser won the last election convincingly by starkly contrasting his party with the ALP: "less" government and "less" taxation was how he described the fundamental political differences. Unhappily, the fundamental differences, particularly in respect of the rising tax burden, are in reality becoming more and
more obscure.

A question of leadership

In the art of government in the '80s fortune will shine brightly for problem-solvers and for "competent economic managers" (a title Mr. Hayden bestowed upon himself at the ALP's recent Biennial Conference) and in a more profound sense for individuals who have the ability to kindle a unity of purpose binding Australians together. Australia’s leaders will need to become more sensitive to the growing disenchantment in the community over the standards of national leadership. Perhaps this disillusionment — reflected partially in national opinion polls — has always existed. Australians love to hate leaders. We are naturally cynical of the institution of leadership, rather paradoxically in view of our yearning for "strong", "tough" leaders. But surely the electorate is entitled to expect that the country is being led in a positive direction. If this is not seen to be the situation, they (the leaders) will lose the confidence of the people and with that the right to govern.

The democratic process

While there is little doubt that the electorate gets the government it deserves, the reverse could be equally true: that Government gets the electorate it deserves. Before Australia staggers into the next decade, voters will need to consider carefully what kind of government will be in the best interests of Australians during the 1980s; and, more to the point, what means governments therefore ought to employ to maximize the economic well-being of the whole community.

For those of us who support the market economy and minimum intervention of the state, it is not simply a matter (as George Bernard Shaw says) of deciding "how little government we can get along with without being murdered in our beds". There should hardly be any doubt that Australians need a government that is aware of the extent of poverty and injustices in the community. However, a "caring" government must also be cognizant of its limitations to allocate resources in the public interest. Public sector expansion "where necessary" will not solve the overriding welfare problem of directing resources to those most in need. If Mr. Whitlam’s social experimentation proved anything, it was that.

During his address to the ALP's Biennial Conference in Adelaide Mr. Hayden acknowledged that a future Labor Government could not provide instant socialist remedies for poverty, inequality and unemployment. It seems incredible therefore, that a Party which claimed (at the Conference) that it was "economically responsible", could put so much faith in an enlarged public sector (obviously still sacred to Labor) to achieve its desired social reforms. No Government in the 1980s will be able to redistribute the nation's income and wealth by enlarging the public sector at the expense of the private sector, unless that Government is prepared to tax the mass of middle income earners and private enterprise out of existence.

The issues of the 1980s

One does not need to be specially equipped intellectually to identify the difficult and important "problem areas" of government in the '80s, the areas in which a Government's performance will largely determine its success at the polls. The economy (inflation, unemployment, taxation etc.), industrial relations, energy, social welfare, are all important issues of great concern to most Australians. The resolution of major problems in these areas will not just be a matter of "responsible economic management" (a platform
on which Mr. Hayden is proudly standing already) although competent management of national affairs must be the modus operandi of responsible government throughout the next decade. Government will need to be innovative in problem-solving, as the period ahead will, as Mr. Hayden says, "throw up its own quite restrictive political limitations". Mr. Hayden's words mean simply that the soft option of a Government spending its way out of trouble will be too dangerous for any responsible Government even to contemplate in the foreseeable future.

A Party seeking to govern in the next decade must have a commitment to raising the living standards of all Australians. This will take time. It necessarily means that the overriding objective of government must be to engender confidence in the private sector so that individuals spend more, companies invest more, private activity flourishes and the wealth created increases job opportunities. A Government must never forget that it is the surplus (profit) producing sector in the economy which creates wealth that makes social welfare possible. This enables bold new reforms to be achieved. If the private sector fails to grow at a sufficiently rapid rate, the public financing of social services will be undermined. That is why, contrary to what protagonists of expansionary economic policies say, controlling inflation is the key to attaining the conditions in which the community's real income may rise.

Those who are quick to advocate expansionary solutions to our economic ills (through increases in government spending) are never able to explain how this economic manifesto could be implemented without deleterious effects on inflation, on interest rates and growth in the money supply and on confidence and investment in the private and external sectors.

The "tax revolt"
Recent events in the U.S.A. and elsewhere suggest that Governments in capitalist economies are encountering strong pressure to reduce taxes from citizens who are objecting to the excessive tax burden imposed on them at all levels of government. Perhaps the rapid growth in the "cash economy" and in the tax minimization "industry" are symptomatic of a rising tax revolt in Australia. Legislation outlawing unscrupulous, unfair or inequitable (to a large section of the community) tax evasion practices is to be welcomed. However, the Australian Government needs to attack with greater assiduity the root of the problem — the ever-increasing appetite of governments for taxpayers' moneys.

A better way
There would be few fair-minded Australians who would object to the Government's use of a progressive system of taxation to redistribute national income according to need. Many "average" wage-earning Australians, however, have a right to feel extremely disgruntled about being taxed to the extent of one dollar in every three extra dollars earned in order to sustain a bloated public service. Taxes should be principally used in welfare to provide a minimum adequate standard of living for the disadvantaged and not to support an army of paper-pushing-stamping servants of the state.

Governments in the 1980s will need to become increasingly concerned about how taxpayers' dollars can be put to better use. Because the provision of social services (including education, health and welfare) now gobbles up almost one dollar in every two of all federal budget expenditures, Governments must devise radical and innovative welfare schemes which ensure that a much higher proportion of each dollar spent on social services is directed...
to the intended recipients. Governments will need to attack (and consequently reduce) the administrative leviathan built into welfare expenditure. If lower taxation were to be matched by a more effective redistribution of income, taxpayers might then feel much less inclined to revolt in one way or another.

Cutting back the size of the public sector at each level of government is anathema to socialists and to those who stand for big government. In fact, judging by the resolutions incorporated into the ALP's platform at their 1979 Biennial Conference, the Labor Party in Government would elevate the public sector to an interventionist role in order to "combat anti-social monopoly, maintain or extend essential economic activity, facilitate restructuring of industry...", and so on. Expanding public services would be Labor's means of generating new jobs and fostering economic growth.

It is ironic that the so-called "egalitarian" reforms promoted by big spenders and which seek universal coverage in social services, are often regressive forces in income distribution. Frequently introduced under socialist governments (e.g. Mr. Whitlam 1972–75), universal schemes such as "free"tertiary education, mean that lower income earners subsidize to a large extent the provision of services to children in higher income families. If the low-income individual or household were to be subsidized directly rather than the service (through say the use of a government voucher to be used in education, health, housing etc.), then taxpayers' moneys might be used far more effectively. Inequalities in income distribution would consequently be reduced. Equality of opportunity need not mean providing everyone with everything, though a Government must attempt to establish an adequate, minimum welfare floor below which no person should fall.

Unrealistic welfare or uncaring realism?

In meeting essential social reforms in the 1980s; responsible Governments will have to distribute more money (and not more public servants) to the underprivileged. Australians are unlikely to be fooled again by a Party that proposes socialistic remedies — government intervention and expansion "where necessary" — in the name of concern for people.

The community realizes that public sector solutions to national problems often mean higher inflation and higher taxation. Nothing would turn the "average" Australian away from Labor (or Liberal) more than a return to expansive government spending programmes and the associated high personal income taxation so reminiscent of the Whitlam years. Expanding the public service does not cure poverty or destitution. Rather, a middle-to-upper income class of bureaucrats grows at the expense of every other Australian.

Australians will likewise vote against a Party whose policies lack compassion for the underdog. Clearly, innovation in social service programmes is urgently required from both political Parties as they move into the 1980s.

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1. For example, the ALP's Conference resolution to re-introduce a universal health scheme financed by an income-related contribution.
NEWLY INDUSTRIALIZING COUNTRIES
AND AUSTRALIA

"The large and dynamic markets of Asia present opportunities which will not last forever."

The Crawford Report.
(Report of Study Group on Structural Adjustment)

In recent years there have been voluminous writings on the problems of Australian manufacturers. Not infrequently the recommendations of numerous reports and studies have expressed the need for the "restructuring" of Australian industries.

I.P.A. does not support the view that "restructuring" our industries — by phasing out inefficient industries and substituting "less dependent", more efficient industries — is the requisite programme for our National Government to adopt.

Rather, I.P.A. thinks that new industries need to be developed in Australia; that our Government ought to provide the "appropriate" investment climate for the creation of these industries by way of greater taxation, investment and export incentives; and that many more Australian enterprises (particularly those in the manufacturing and service sectors) must themselves initiate new export programmes to capture a share of growing markets in newly developing countries.

The following article describes the rapid industrialization that is occurring in a special group of developing countries. It urges Australian businesses to capitalize on the growing commercial opportunities in the Orient.

* * * * *

A recent special Report of the Organisation for Economic Co-operation and Development (OECD) shows how ten Newly Industrializing Countries (NICs) have achieved rapid economic growth since the early 1960s.

The Report demonstrates clearly the trading challenge that the world's rapidly industrializing (developing) countries present to industrialized countries and particularly to Australia.

The main difference between the NICs and the other non-oil producing developing countries lies in "the emphasis which they place on outward-looking growth policies as means of promoting rapid industrialization". The NICs are principally characterized by "a fast growth of the level and share (i.e. world share) of industrial employment, an enlargement of export market shares in manufactures and a rapid relative reduction in the real per capita income gap separating them from the advanced industrial countries".

1 The Report is entitled, "The Impact of the Newly Industrialising Countries on Production and Trade in Manufactures". Unless otherwise stated, all quoted extracts in this article are taken from this Report.
2 The ten NICs studied by the OECD form a diverse group which includes the following countries: Brazil, Greece, Hong Kong, South Korea, Mexico, Portugal, Singapore, Spain, Taiwan and Yugoslavia.
Economic growth of NICs since the 1960s

Several years ago an international group of "experts" in economic forecasting predicted a widening income gap between the world's industrialized countries and the non-industrialized countries, at least until the end of this century. The extraordinary economic development in some of the Asian market economies has, as so often is the case in economics, made nonsense of these predictions.

Already some of the NICs have narrowed the income gap markedly by adopting liberal trade policies and by opening up their economies to international competition. South Korea, for instance, (although its national income is low, it is growing rapidly because of expanding trade) is pursuing specific import liberalization policies. The present Government's trade programme aims at having 90 per cent of imports free from restrictions by 1980.

It is not unlikely that other developing countries, following the same development strategies as those pursued in the NICs, will soon draw closer to the industrialized world in terms of national income per capita.

According to the OECD: "Between 1963 and 1977, the share of the NICs in world industrial output increased from 5.4 to 9.3 per cent. The share of the NICs in the world exports of manufactures increased from 2.5 per cent in 1963 to 7.1 per cent in 1976 i.e. much faster than their share in world output."

From the beginning of the 1960s, the growth in gross domestic product (in constant prices) of NICs has been far superior to that achieved by most of the industrialized nations. This growth performance, however, must be qualified by the fact that development in some countries accelerated from a very low base.

The table below compares growth in three of the faster developing NICs over two separate periods with the corresponding growth in the Australian economy and in the OECD group of industrialized economies.

Since 1973 the three fastest developing NICs, South Korea, Brazil and Hong Kong, have gone furthest in promoting

<table>
<thead>
<tr>
<th>Gross Domestic Product (adjusted for inflation)</th>
<th>National Income per head</th>
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<tr>
<td>Average percentage increase at annual rates</td>
<td>$US</td>
</tr>
<tr>
<td>1963 to 1973</td>
<td>1977</td>
</tr>
<tr>
<td>South Korea</td>
<td>10.3</td>
</tr>
<tr>
<td>Brazil</td>
<td>8.2</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>9.0</td>
</tr>
<tr>
<td>Australia</td>
<td>5.2</td>
</tr>
<tr>
<td>OECD Total</td>
<td>4.9</td>
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<tr>
<td>(average for 24 industrialized countries)</td>
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Note for table:

Figures relating to economic growth for Australia are from The Australian National Accounts and those for the other countries are derived from the OECD. Figures relating to National Income per head are from the 1978 World Bank Atlas. Strictly speaking, comparing growth in the OECD and Australia with growth in developing countries is misleading because they are "worlds apart" in respect of the stage reached in their economic development.
"outward-looking" growth based around exports.

**Dynamic aspects of two-way trade**

Trade on a complementary basis has been a salient feature of economic growth in NICs. While the NICs were vigorously developing their export industries during the 1960s and the 1970s and penetrating, on a large scale, markets in industrialized countries (such as clothing and footwear, leather and electrical goods) they were also taking an increasing share of the industrialized countries' exports.

Industrialized nations have serviced growth in the newly developing countries by providing the latter with investment goods (such as machinery, transport equipment and precision and measuring instruments), technology and management expertise. OECD exports of investment goods to NICs increased from 8.1 per cent of all OECD exports (of investment goods) in 1963 to 11 per cent in 1977.

Supplying important inputs and semi-finished goods for assembling and for further processing in developing countries has been (and will continue to be) an important function of the developed countries. In fact, the transformation of the developing countries' local industries into exporting enterprises will depend to a large extent upon the continued supply of raw and semi-processed materials from industrialized countries such as Australia.

**Encouraging exports and foreign investment**

Export or perish is a basic economic fact of life in many NICs. In many developing countries, although national income per head is rising quickly, it is at an insufficient level to generate enough demand to sustain a growing industrial sector. Hence, developing countries look to international markets for outlets for their industrial production, for inputs needed in their manufacturing operations and for overseas capital to finance new industrial development. The high share of exports in gross output of manufacturing sectors in some developing countries reflects these economic realities and stands in stark contrast to industrialized countries such as Australia where there is a deficiency of export-oriented manufacturing industries. In Hong Kong and Singapore, for example, the share of exports in the gross output of manufacturing industries approaches 80 per cent.

Some Governments of NICs have gone out of their way to attract foreign investment into their countries by creating the "appropriate" commercial environment. Risk-taking is encouraged, profit-making is rewarded and "the market", which is relatively free from government regulation and control, is the catalyst of economic growth.

In Hong Kong the role of the Government in economic planning is positively beneficial to the conduct of business in that country. The Government welcomes overseas operations and foreign equity in industrial projects by not imposing unnecessary restrictions on investment. There is complete freedom of movement of funds into and out of the country; there are no specific local equity requirements for foreign investors; personal income tax is low; corporate taxation is low (a flat rate of 17 per cent on profits made and no dividend-withholding tax); there are no limits on dividend or capital remittances. Generally, the unrestricted flow of goods and capital into (and out of) Hong Kong is a major factor contributing to that country's rapid economic growth.

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*In NICs, GNP per capita in U.S. dollars ranges from $810 and $1,180 in Korea and Taiwan respectively, to $2,890 and $3,190 in Singapore and Spain respectively.
Exploiting "comparative advantage"

(i) Newly Industrializing Countries

In most instances developing countries that have adopted exports as the "engine for growth" have exploited their "comparative advantage". This means that they have developed industries that are internationally competitive because of their natural economic advantages. Not surprisingly, comparative advantage for NICs in international production lies principally in low-cost, high-labour content operations and in craft industries which reflect the skills of the people.

(ii) Australia

Unlike growth in newly developing countries, much of Australia's post-war growth has not stemmed from full exploitation of our comparative advantage (apart from our developing natural resource industries in agriculture and minerals). Some sections of our import-competing manufacturing industries have attempted to produce a little bit of everything for the domestic market rather than producing (to a much greater extent) low-cost (or perhaps high quality) goods and services which are competitive on international markets.

It must be pointed out however, that Australian manufacturers operate under high-cost conditions. Many factors outside the industry's control have contributed to the contraction of manufacturing employment and to the sector's decreasing contribution to Australia's gross domestic product during the 1970s. These factors include the rapid increase in unit labour costs over the last ten years; the slow-down in population growth and the changing composition of consumer spending; the deceleration in economic growth during the 1970s; and the inability of many manufacturers to achieve economies of scale due to the limited size of the Australian market.

Apart from our exports of minerals, processed minerals and agricultural commodities, Australia's comparative advantage at present lies in new products and processes, technologies, know-how and management skills — i.e. in those products and services which, though we export little of them yet, are required by developing countries in order to raise further their living standards. We do export consulting services; however, insufficient emphasis, to date, is being placed upon the development of Australia's special skills and services for export.

Manufacturers who are consistent export award winners show that we do have the technology and the expertise in manufacturing that would enable us to penetrate markets in Asia which comprise hundreds of millions of consumers with growing real incomes. Developing "new" industries based around exports could be an important means of increasing levels of employment in the 1980s. The Minister for Industry and Commerce, Mr. Lynch, said recently: "Manufactured export production currently generates around 300,000 jobs. A doubling of such exports — increasing our share of the world market from half a per cent to one per cent — would go a long way towards relieving Australia's unemployment problems." But if incentives to export are to be strengthened the Australian Government will need to become much more innovative in providing taxation/investment benefits for newly emerging export enterprises.

Export incentives

The Government recently launched an "Export Now" programme to stimulate more export awareness in Australian industries. This is a start. But to encourage industry to develop its export potential, to the full, the Government needs to provide...
greater incentives so that many more manufacturers consider it profitable to export and consequently adopt serious export marketing programmes as part of their business strategy.

The 1979-80 Budget is to be commend-ed for greatly expanding payments under the export incentive scheme and for allowing some depreciation (albeit at a low flat percentage rate) in respect of buildings used for the accommodation of travellers. The increase in the retention allowance for private companies from 60 per cent to 70 per cent is also welcome and will encourage the accumulation of capital for new investment in the private (particularly small business) sector of the economy.

The Government, nevertheless, needs to consider additional measures to stimulate new export industries. These ought to include the Crawford Committee's recommendation of tax-free grants (at a flat percentage rate) for export development; higher rates of depreciation applying to plant and equipment used in manufacturing operations (the present rates inhibit new investment and discourage the introduction of the latest technology); and the extension of depreciation allowances to other income-producing buildings.

The future: Australia and her developing neighbours

The best way for Australia to promote the development of free market economies in the Asian-Pacific region will be through increasing its trade within the region. The challenge of the Orient is immediate. Now that the opportunities are there, Australian enterprises must try a lot harder and become more persistent and patient in establishing sound economic relations with our closest neighbours.

Economic growth arising from expanding trade and not from handouts or charity, will most effectively (and permanently) narrow the gap in living standards and the disparities in income and wealth that presently exist between Australia and her developing neighbours.

Australia can promote the NICs and other market economies close to home by developing industries which not only reflect our natural strengths in resources, manpower and technology, but which also attract an increasing flow of imports from developing countries, imports which cover a growing range of goods and services.
CHANGES TO I.P.A. EXECUTIVE AND EDITORIAL COMMITTEE

Resignation of the Director

We regret to announce the resignation of the Director, Mr. Roger Neave, M.A. (Oxon.), A.F.I.B.A. Mr. Neave joined the I.P.A. as Deputy-Director in 1977 and subsequently became Director of the Institute in 1978.

The appointment of a new Director is presently under consideration. In the meantime the work of the I.P.A. is being carried on by the Staff and the Executive and Editorial Committee. Mr. C. D. Kemp, who was Director of the Institute from 1947 to 1976, is acting as a Consultant on editorial matters.

Resignation of Mr. Robert S. McKay

Mr. McKay joined the I.P.A. Executive Committee in 1975 and the Council of the Institute in 1978. His recent appointment as Managing Director of Macmillan London Ltd., comes after his five years as Managing Director, General Books Division, in the Macmillan Company of Australia. The Institute will miss Mr. McKay’s considerable contribution to editorial matters. We are glad to have him remain on the Council.

Appointment of Mr. D. M. Hocking

Mr. Hocking has been associated with the Shell Company (Aust.) for the past 23 years. He is currently Shell’s Chief Economist. Mr. Hocking joined Shell in 1956 after having spent the post-war years working as a Senior Lecturer, and subsequently a Senior Research Fellow, in the Faculty of Commerce at Melbourne University. We are especially pleased to have such an experienced economist to assist the Institute on editorial matters.