Editorial—

THE BUDGET 1980/81 — SOME DISQUIETING REFLECTIONS.

The most important influence on the economy is not the Budget surplus (or deficit); nor that arcane concept M3 (or is it M4, M5, or M6?) to which magical curative properties are being attributed. It is the movement in money incomes.

It is the movement in money incomes that governs the rate of inflation, the level of employment (or unemployment) — particularly among the young — the international competitiveness of our industries, the level of interest rates, and the confidence (or lack of it) that the community feels about the economy. The latter-day obsession of politicians, economists and media commentators with the Budget outcome and the money supply is obscuring this simple, but overwhelmingly important, truth.

The Fraser Government has been consistently right in its emphasis on inflation as the root of all evil; it has been consistently wrong in attributing such unique importance to the Budget outcome and the supply of money. This has given rise to hopes and expectations in the community which monetary and fiscal policies have no prospect of fulfilling — that is, no prospect of fulfilling while the present rapid increase in money incomes is allowed to go on, virtually unchecked.

There are several disturbing things about the 1980/81 Budget.

One is that the rate of inflation, on the Government’s own admission, is likely to be higher in the current year than in the two preceding years, notwithstanding the much-acclaimed domestic Budget surplus (the first for seven years) of $39 million. The reason is very simple: in 1980/81 average weekly earnings are forecast to rise 12 per cent as against 9.6 per cent last year and 7.75 per cent in 1978/79.

How much significance, then, can one attach to the Treasurer’s words in the Budget Speech that, “The dominant feature of those policies has been our relentless effort to control inflation. There must be no relaxation of that effort”? “Relentless”, the efforts of the Government may have been, but they have met with only minimal success. The results that are now being posted on the board can bring little joy to the Government or to anyone else.

The truth of the matter is that the Government’s efforts are being largely misdirected. As an instrument of overall economic management, the Budget (or for that matter its close relation, the supply of money) is not nearly so efficacious as modern thinking would have us believe. Indeed, experience in Australia over the entire post-war period has shown that the Budget has never been especially effective in controlling the economy. In
earlier years — in the 1950s and ‘60s — budgetary policy was often rendered largely impotent by the pursuit of over-ambitious growth targets for development and migration. Today, it is being rendered even more ineffective — as an instrument for controlling inflation — by an annual 10 per cent (and more) increase in money incomes when the maximum for price stability would be no more than 3 per cent.

If the Government is serious about defeating inflation (and there is no doubt that it is) it should spend less time worrying about M3 and the budgetary outcome and more time worrying about the rate of increase in money incomes.

What can it do? It is certainly not sufficient for the Government to wring its hands over irresponsible wage demands, whether by metal workers or doctors or anyone else; or to present submissions against full indexation to the Commonwealth Arbitration Commission; or to deplore the irrationality of the Commission’s judgements. No Government in the modern world of competitive acquisitiveness can achieve reasonable stability in the economy and dispense economic justice without a positive incomes policy. This is the third leg of economic management and at present by far the most important — budgetary and monetary policies being the other two. At present we are faced with the ultimate absurdity that the most potent weapon of economic control is being wielded by a body which not only should have no pretensions to economic expertise but which is not responsible to the people for the state of health of the economy — indeed which, in any case, refuses to accept such a responsibility.

What, then, is meant by a “positive incomes policy?”

Much, we believe, can be done short of the Government attempting to assume direct control of incomes and prices. There are at least three strands in the make-up of such a policy.

The first is concerned with information. The Government should set about, systematically, to change the climate of opinion in the community toward inflation. This may not be so difficult as it may at first appear. Notwithstanding the indexation of their incomes, most people, it is fair to assume, deplore the continuing rapid decline in the purchasing power of their dollars and hanker after some degree of price stability. Moreover, the majority have more than a lingering suspicion that wage and other rises are almost immediately translated into higher prices. The Government should demonstrate in simple terms which can be understood by all, and through irrefutable fact and logic, precisely why prices are rising at 10 per cent and more every year and what conditions the community must, therefore, accept if this is to be stopped. If the Australian people after they have been told the truth, refuse to face up to the facts of life, the Government can hardly be blamed. But, first, it should not avoid the responsibility of making the effort. The money that the Government proposes to spend in the current year on the faintly absurd “Life Be In It” campaign (not a matter in any case for a national Government) could be much better applied to a counter-inflationary educational campaign. Community education is one of the main weapons in the armoury of democratic Governments — a weapon which has been much neglected in recent years. If Governments wish to gain support for policies to which there is widespread resistance — based on ignorance and misconception — the sensible thing to do is to set about changing the ideas giving rise to this resistance.

The second strand of an “incomes policy” is for the Government to demonstrate, by its own actions, what is needed by refusing to countenance recommended rises in pay for Parliamentarians or for senior officials.
coming under its authority. (The Thatcher Government in Britain is doing just that.) It is inconsistent, indeed hypocritical, for the Government to take a strong line against indexed pay increases and yet accept those increases for itself. Leadership, after all, is largely a matter of example.

The third strand is for the Government, through appropriate tax measures, to improve or at least maintain the real value of take-home pay. This is a much better way of doing it than through the self-perpetuating process of indexation which (unless there is a marked change of heart by the Arbitration Commission) is likely to continue to guarantee the indefinite continuation of inflation at an annual rate of 10 per cent or more. At the very least, such an approach could be expected to encourage greater restraint on the part of the unions and other sections of the community than is at present evident. It may also not be too much to hope that the Commission itself will be less disposed to grant inflationary wage rises under conditions where after-tax incomes have increased.

What is certain is that unless the Government changes the focal point of its attack on inflation from the fiscal and monetary fronts to the incomes front, then it has no hope of succeeding in the undertaking it gave when it came to power, and which it has re-affirmed, with persistent but now unconvincing regularity, ever since.

One aspect of the Budget (and the picture of the economy which emerges from it) that seems to have gone virtually unnoticed is the dramatic turn-around in the investment picture. Gross fixed capital expenditure by the Commonwealth is estimated to increase by 24 per cent, representing a real growth of 11 per cent as against a fall of 3 per cent in 1979/80. The Budget forecasts also assume a real growth in business fixed investment of over 10 per cent compared with a fall of 5.25 per cent in the previous year. Capital expenditures of the States and Local Governments are also expected to increase following a fall of 2.5 per cent in 1979/80.

The big expansion in claims on resources arising from the turn-about in capital expenditures will certainly introduce an additional strong inflationary bias into the economy. Statement 2 of the Budget Papers comments, "Sharply increased investment demand is... likely to lead to increased difficulties in obtaining skilled labour and materials as well as finance". It also states, "The much faster estimated increase in company tax payments — 32.1 per cent — in 1980/81, together with the increase requirement to finance business capital expenditures will... perhaps have implications for corporate pricing policies".

The precise extent of the strains which this striking change in the investment picture will impart to the economy, both in the demand for funds and, thus, interest rates, and in wage rates for skilled labour, will only emerge during the year but, taken in conjunction with other factors making for inflation, certainly give cause for disquiet. It was, let it be remembered, the over-concentration of the nation's resources on Investment (a synonym for Development) which was a persistent, underlying cause of the inflation of the 1950s and '60s.

A third, and to believers in the market economy, the most disturbing feature of the Budget, is that it puts us back on the track toward bigger and bigger Government. Expenditure is to increase by 13.7 per cent in money terms (9.1 per cent last year) and just on 3 per cent in real terms (virtually no increase last year). On the revenue side, total Budget receipts will form a higher proportion of the G.D.P. — 26.7 per cent — than in any previous year. To be fair, it has to be said that the big but wholly justified jump in expenditure on Defence — 7 per cent in real terms — has not helped the Government in its professed aim of reducing the claims
of the public sector on resources. It should also be said that under a Labor Government, judging not only by its past record but by pre-election intentions, those claims would be very much larger.

Nevertheless, there are disquieting signs that the Government is weakening in its attitudes both toward the appropriate size of Government in a liberal, free enterprise economy and toward inflation. For it is not only budget deficits which are inflationary but also the absolute magnitude of Government spending, even when balanced by receipts. One would have thought that the huge bonanza in revenues as a consequence of the oil levy would have led the Government to eagerly grasp the opportunity of achieving its long-professed aim of making really big reductions in personal taxation, thus leaving the private person much greater, and government bureaucrats consequently much less, discretion over how his or her earnings are to be spent — a central principle, surely, of the liberal faith. Moreover, there is no better way to assist and encourage small business enterprises, a key sector of the economy.

Before the 1980/81 Budget, one would have been justified in believing that the Fraser Government had a firm and clear philosophical commitment to smaller government, lower interest rates, selective Welfare, the unique value of the self-reliant individual (with appropriate rewards for work and enterprise) and the fullest possible freedom of choice. But there is little sign of philosophical principle in the structure of this Budget, or, indeed, of philosophy in the dull, uninspired wording of the Budget Speech. One searches in vain for ringing, clarion-call phrases of the kind which attracted attention in the early Budget Speeches of the Government, phrases such as "a public sector swollen beyond belief", and which encouraged hopes that the "bureaucratic monstrosity" was at long last about to have its wings clipped. Indeed, the 1980/81 Budget, by contrast with its predecessors, now allows for some growth in public service staffing. (A superb example of the remote unrealism of the bureaucratic mind was provided in the changes to the Pharmaceutical Benefits scheme which, to the acute embarrassment of the Minister for Health, had to be dropped 48 hours after they were introduced.)

The Budget Speech seems to disregard entirely the all-important dimension of political and psychological leadership. The community is not being given a clear sense of purpose or direction. Is it because the Government itself has (only temporarily, we hope) lost its own? Rome, it is true, was not built in a day; but one must now have doubts whether it will ever be built at all: whether we are not caught up in a kind of inexorable progression toward bigger and more powerful Government, bigger and more powerful Bureaucracy, with the individual eventually "less than a thing of naught".

A postscript! The people who are being most cruelly penalised by this process, by high taxes and high inflation, are, ironically enough, the very people who most exemplify those liberal principles for which the Government professes to stand. These are the hundreds of thousands in retirement, endeavouring to live on their own savings (of which they are being progressively robbed by inflation) and not on the State: the people who, in their own lives, have exhibited the liberal virtues of hard work, thrift, responsibility, enterprise, independence, and self-reliance. It is a disturbing thought!
DEFENCE — A STRATEGIC CONCEPT-NEEDED

by B. A. Santamaria

Australia is one of the small group of nations which is confronted not with one but two sets of problems of quite different orders of magnitude.

She is caught up in the general crisis of the Western World. In the event of an historic catastrophe for the West, we go too. Abstractions may be dreamed up by some who have, for instance, envisaged a future for Australia as a life-raft for "the human flotsam of a nuclear holocaust". They are what the humorist, Stephen Leacock, called "Moonbeams from the Larger Lunacy."

There are few small nations, however, which do not, at the same time, need to concern themselves with a second set of problems: purely regional threats to their national security. These can explode to their ultimate undoing, quite apart from the central international issues, as a result even of the policies pursued by Great Powers, quite conceivably even by their own allies. However one judges the regime of the Shah in Iran, it is difficult to avoid the conclusion that a major factor in the overthrow was the total confusion in the policies of the American President who, only six months previously, had publicly testified to the primacy which U.S. placed on the alliance with Iran in the preservation of its own interests in the Middle East.

Perhaps one should examine each of these situations in turn.

The general defence of the Western world which has taken on a new urgency with the Soviet invasion of Afghanistan.

What is its significance?

As far as I understand the Federal Opposition’s position in relation to Afghanistan, it appears to be this. The Soviet invasion of Afghanistan deserved to be condemned, as does the invasion of any country. But Afghanistan is 13-15,000 kilometres from Australia; the invasion is not a strategic hazard to this country; hence Mr. Fraser is "stunting," with a khaki election in mind.

Furthermore, the Federal Opposition has claimed that the Soviet’s invasion of Afghanistan, while morally unacceptable, is essentially defensive in intention; and that expert opinion in the Department of Foreign Affairs actually backs their view rather than the Government’s.

I believe — although naturally I cannot prove — that it does. But is it right?

If you wish to look at Afghanistan as a single isolated incident, you can make an arguable case for the view that the Soviet intervened so as not to lose the control it had established over the past five years, in which a mere 5,000 Soviet advisers and combat troops maintained pro-Soviet governments in power. That apparently is the "expert" view of at least one section of the Australian Department of Foreign Affairs.

But if you regard the invasion of Afghanistan as part of a process, I suggest that a totally different conclusion follows. That process began immediately after Khrushchev’s humiliation by President Kennedy over Cuba in October, 1962. By the end of the year historic decisions had...
been taken by the Soviet Politburo and the Soviet General Staff. The decisions began with a rapid build-up of Soviet nuclear and naval power, clearly aiming at supremacy with the first, and probably with the second.

In nuclear power the U.S.S.R. today equals the United States; for certain specific operations, for instance a strike against the nuclear installations of Europe or China, it has surpassed the U.S.A., unless the latter is prepared for a total nuclear conflict including the destruction of its own cities.

As far as naval power is concerned, 1966 witnessed the first entry of Soviet ships into the Eastern Mediterranean, which previously could have been called “Mare Nostrum”, thus neutralizing the U.S. Sixth Fleet’s capacity for operations in the Middle East, in circumstances short of general war, a capability which the U.S. had possessed in the fifties, when it landed intervention forces in the Lebanon.

1969 witnessed the first entry of Soviet ships into the Indian Ocean, the Department of Foreign Affairs persuading the unfortunate Mr. Freeth to say that this was not an event to cause alarm, a prophecy which ten years later looks rather threadbare.

1975 saw the defeat of the Americans in Vietnam, which would have been impossible if the Soviet Union had not armed 19 North Vietnamese divisions. One major consequence is that the Soviet Navy is increasingly using the great naval base at Cam Ranh Bay, its air power the airfields at Da Nang, while a Vietnamese Communist army of 20 divisions has occupied Cambodia, threatening Thailand, Malaysia and Singapore.

This was followed by the Soviet occupation of Ethiopia on the south bank of the Red Sea, close to Saudi Arabia; of Aden at its mouth, and close to the mouth of the Gulf; of Angola and Mozambique in southern Africa, the Soviet sending its heavy transports, heavy artillery, planes, rockets to supply the Cubans and East Germans to do the job for them.

I would submit that in this situation, to treat the invasion of Afghanistan as a single incident rather than as part of a process, does not appear to accord with common sense.

What makes the occupation of Afghanistan important in 1979 is that it is not a single incident but that it is part of a process. It is bad reasoning, leading to invalid strategic and political conclusions, to look at each incident in isolation, as in the thirties it proved bad reasoning so to regard the Nazi occupation of the Rhineland, Austria and the Sudetenland.

The more correct judgement appears to be that of Dr. Kissinger’s former Counsellor on U.S. European and East-West relations, Helmut Sonnenfeldt. It is all the more significant in that Sonnenfeldt, like Kissinger when they were both in office appeared to take a more accommodating view of Soviet ambitions.

“There are several particular consequences of the Soviet action in Afghanistan” wrote Sonnenfeldt.

“First, it clearly represents a new Soviet position in Southwest Asia. Though perhaps never to be pacified, Afghanistan is a country with a road network (constructed partly by the United States and partly by the Soviet Union) and important airfields that make it not simply a remote place, nor indeed even a buffer, but potentially a base from which military operations can be conducted in adjacent areas.

Second, this Soviet position, unlike its positions in Czechoslovakia and Hungary, occurs in a region that is itself militarily weak and plagued by political turbulence. Third, this
event has occurred in a region of the world that is crucial to the economic health and well-being of the world at large, particularly of the Western, industrialized world, because of both its oil resources and waterways. Fourth, the Soviet position in Afghanistan is clearly related to its attempt to surround China with positions or countries closely associated with the Soviet Union — a reaction to its anxiety about an encirclement stemming from the possible alliance between China, Japan, Western Europe, and the United States.”

How far will they go? Well, the future is unpredictable, but all contingency planning ought to be based on the premise of the worst reasonably foreseeable contingency. This demands a study of (i) their capabilities (ii) their interests and (iii) their essential intentions.

(i) Their capabilities have been broadly described. All that needs to be added is the strategic effect of their military dispositions in Afghanistan, if they are able to consolidate their hold.

(ii) It appears that the Soviet has located its armour — and possibly both short-range nuclear missiles and gas — in such a way it can develop opportunities in four directions, if only it can consolidate its positions once campaigning weather begins:

- in the vicinity of Jalalbad, which is close to the Khyber Pass, so that it can threaten Pakistan.
- in the vicinity of Herat, from which it can threaten Iran: Iran would also be attacked from the north from Soviet Azerbaijan.
- in the vicinity of Kandahar, from which it can attack Baluchistan through which it can seek its warm water port on the Indian Ocean, and the bottling up of the oil supplies of the Persian Gulf.

I am not predicting that the Soviet will do all or any of these things. I am simply saying that they now have the capability to do so, if they consolidate their position in Afghanistan, and if they so desire.

(iii) The question of essential intention remains in short, with whom are we dealing?

The Soviet leaders are human beings, as we are. They are not Martians or creatures from outer space. According to their own lights, they are not monsters of iniquity but men accustomed to the use of power. They are flesh and blood, the products of their heredity, their environment, and particularly of their life-long education.

In the case of the Soviet leadership, there are two basic elements in their character. They are Russians in the tradition established by Peter the Great. But they have had a life-long education based on Marxist-Leninist ideology. That combination lies at the heart of the matter.

By that I do not mean that each morning Brezhnev and his associates, on rising, read a passage from Marx’s “Das Kapital” or any of Lenin’s works, any more than most believing Christians indulge in a daily reading of the New Testament. Nevertheless, the “Holy Books” of Marxism impregnate the minds of the Soviet leadership, just as their Russian origin powerfully influences their psychological make-up, in ways brilliantly described by Tibor Szamuely in “The Russian Tradition.”

If one accepts this view of their mentality and inner motivations, it is logical to accept that Soviet leadership ultimately aspires to a world in which Soviet power will be dominant;

That when, at the 25th Congress of the C.P.S.U. of 1975, Brezhnev stated openly

*Afghanistan: Hard Choices for the U.S.
Helmut Sonnenfeldt — “Worldview” June, 1980
that detente did not mean the end of the world-wide struggle between Communism and Western democracy, he meant what he said;

That when, in Prague in 1973, Brezhnev said that “a decisive shift in the balance of forces would occur in 1985, and place the U.S.S.R. in a position to impose its will wherever necessary” he meant what he said;

That much more scientifically than Western democratic States — much more scientifically, in particular, than the U.S.A. — its leadership constantly measures the “balance of forces” to ensure that it uses the best weapon — whether, at a particular moment, it is political, economic, military, ideological — to fill the vacuum created by the weaknesses of the West;

That its essential advantage over Western societies lies in the iron totalitarian controls — dictatorship, labour camps, psychiatric wards — which enable the Politburo to dominate every potentially dissident element in the Soviet Union, whether the managerial bureaucracy, the workers or the intelligentsia. These pressure groups do exist in the Soviet Union, as they do in Australia. But whereas in Australia they dominate governments, in the Soviet Union it is quite different.

Nobody knows the Soviet leaders better than Tito’s wartime Second-in-command, Djilas. His words are worth recording:

“The importance of ideology for the Soviet leadership — any Soviet leadership — is seldom understood in the West. For an American or an Englishman ‘imperialism’ and ‘expansionism’ have to do with financial investment, technology, raw materials and the like.

Not so for the Soviet leaders. Their rule as anchored in ideology, as the divine right of kings was in Christianity; and therefore their imperialism, too, has to be ideological or else it commands no legitimacy.

This is why the men in the Kremlin can lose no territory once acquired, why they cannot abandon friends and allies, no matter how objectively burdensome they may have become to them . . . or admit alternative interpretations of the true faith.

That is also why it is an insupportable American hope that the Kremlin may be pressured or humoured into a type of comprehensive detente which would guarantee Soviet moderation in Africa and Asia as part of a SALT settlement, or any settlement. No Soviet leader can do that without abdicating his title to leadership and jeopardising the justification of Soviet rule.

Ideology in the Soviet Union is both dead — and very much alive! Dead at the level of faith, alive as an indispensable rationale of policy.”

Is there then a danger of great international conflict? Yes, there is, but one should understand precisely why and how.

If I may refer to the analogy of 1939, it is to refer to the immediate cause of the Second World War as it was gauged by one of its few great historians, the British military strategist Captain Basil Liddell Hart.

The central cause of the outbreak of the Second World War, wrote Liddell Hart, was not “Hitler’s aggressiveness, but the encouragement he had long received from the complaisant attitude of the Western Powers, coupled with their sudden turn about in the spring of 1939. That reversal was so abrupt and unexpected as to make war inevitable.”

In other words, according to Liddell Hart, the West was, at least, as much to

* Denis Warner, Brisbane “Courier Mail”, 24.1.80
blame as Hitler. Its crime was its lack of consistency.

It is this lack of consistency which underlies the world's present danger.

For the last decade the political-academic establishment which has controlled U.S. foreign policy — far more decisively than the so-called military-industrial complex — has behaved exactly as its European opposite numbers did in the early thirties. They have both passively and actively condoned the Soviet rearmament program, with Western bankers financing, Western farmers exporting grain, and Western corporations exporting high-grade technology, to the Soviet Union. This policy has yielded effective military superiority to the Soviet which it will retain at least for the next five years, even if the Americans should, as they promise, embark on an accelerated rearmament program tomorrow.

Now — to the cheers of the very Congress which scuttled South Vietnam, and condoned the activities of Cubans, East Germans and Russians in Africa — the American President threatens war if the oil supplies of the Middle East are interfered with by the Soviet Union. This risk lies in the highly uncertain factor of "lead-time"; that the Soviet leaders, after they have consolidated their postion in Afghanistan — which will take six months — may decide to act soon when the United States is at its weakest, with NATO riven by uncertainty.

That, however, is the Soviet Union's decision. That decision won't be greatly influenced by President Carter's threats. American threats will have no credibility until the U.S. has a land base in north-eastern Africa, close to the Red Sea, and therefore to Saudi Arabia and its oil-fields, on which to locate what intervention forces the United States has today and those it is now pledged to create in the next four years. There is no real alternative to Egypt.

Next, the U.S. needs some local successes to prove to potential allies that if you link your fate with the U.S., you will not be sold down the river. That means encouraging Egypt to rid Libya of Gaddafi. It means working with Egypt, the Sudan, Somalia, and the Eritrean rebels to rid Ethiopia of Mengistu — if these governments can be interested.

Finally, to make it politically possible for friends like the Jordanian king and the Saudis openly to side with the West, Israel must be persuaded to permit the creation of a genuinely autonomous Arab entity on Palestinian soil. Israel's fears are understandable: but the alternative is much worse for Israel itself.

If, time permitting, these things can be done, the West would be, once again, in business.

What is not "on," however, is that the U.S. should assist China to develop its nuclear arsenal with Western technology. About China the Soviet are paranoid. Recently, Brezhnev warned the President of the French national Assembly, Chaban-Delmas, that the West should not make the mistake of building up China as a nuclear balance to Russia. "Believe me", said Brezhnev, "after the destruction of the Chinese nuclear sites by our missiles, there won't be much time for the Americans to choose between the defence of their Chinese allies, and peaceful co-existence with us." He was
neither joking nor bluffing.

These world-wide considerations above provide an acceptable framework for a system of Australian defence preparation. I would give strong support to the Prime Minister's analysis of the significance of the invasion of Afghanistan. There is, however, little or no relationship between the resultant perils, and the new defence measures he announced. These were, in substance, already announced in the Defence White Paper of 1976, and nothing has been done about them.

What is indispensable, I suggest, is a clearly-stated and seriously pursued strategic concept to test the seriousness of the defence policies of any Australian government.

The Government's strategic concept must naturally be consistent with, although it should not be dependent on, the world-wide American defence posture: that is, if there is such a thing as an effectively world-wide American Strategy, of which I am frankly doubtful.

The Australian concept should, I suggest, cover a ten-year period and aim to equip Australia to face up to many decades of heavy and increasing responsibility in three major areas of potential engagement.

(1) Australia should accept responsibility for developing and maintaining naval and air superiority in the eastern Indian Ocean: a triangle whose base would stretch from Cockburn Sound to North-West Australia, with Cocos Island as its apex. This would provide a link with U.S., French and South African naval and air power operating from Diego Garcia to the Persian Gulf and south to the Cape.

(2) Australia should accept a similar defence responsibility accompanied by close political, economic and aid relationships — with the nations of Oceania, stretching from Papua New Guinea through the Solomons, New Hebrides and Fiji, down to New Zealand in the south. That would provide a necessary link with U.S. power in the Philippines and, through the island chain including the Carolines and the Marianas, back to Hawaii.

(3) Australia should establish the closest economic, political and military relationships with the ASEAN nations, particularly Indonesia.

This would involve more than the development of adequate air and naval power. Within the framework of such a de facto alliance, it involves the maintenance of land forces necessary to assist an ally whose territory may be attacked by hostile power, e.g. Vietnam.

This force should also include specialised units — whatever they are called - similar to the intervention forces which the French have used effectively, on several occasions, in Africa: to help a legitimate government, friendly to Australia, which requests emergency help against the threat of a foreign-assisted coup d'etat, not impossible once heavy Russian transports are based on Vietnamese airfields.

Australia's own defence industries should be re-established to provide the greater part of Australia's own defence equipment, and of a substantial proportion of the defence equipment of the ASEAN States, since the supply of U.S. equipment cannot be relied on in an emergency.

Australia's failure to develop her defence industries over the past decade has meant that ASEAN States have looked primarily to the U.S. for their immediate supplies.

On the still uncertain assumption that the U.S. is capable of providing effective
leadership to the non-Communist world, this pattern of military power in the South-West Pacific would complement "free world" power on the American continent, Europe, the Middle East and North-East Asia.

This program is geared fundamentally to the defence of Australia's own region, but fits in with the world-wide responsibilities of the Western alliance.

As to the costs, they do not create a specifically economic problem. They do underline the real question — which is that of political will. I leave aside any discussion as to whether Federal and State Budgets should be re-shaped so as to allot to defence some of the proportion of G.D.P. which goes to what may generally be called social welfare. As far as I am concerned, this is not a closed question: let us, nevertheless, treat it as closed.

The Federal Government is now raising approximately $3 billion annually from the crude oil levy. It is reasonable to believe that this will rise to $4 billion annually, perhaps higher.

What do you do with it? Essentially, your choices are three:

(1) You can feed it into the Budget for more social welfare without directly raising taxes, in other words, into current consumption. That is what we are now doing — consuming what should be treated as a depletion allowance.

(2) You can treat all or part of it as a depletion allowance, and use that to establish a coal-to-oil industry, as South Africa has done with its SASOL plants.

(3) You can use all or part of it on defence, without raising new taxes.

In other words, there is now at least one way, making it clear that our problems are not economic but political, that if we ultimately lose Australia, we have no one to blame but ourselves.

If Australian governments, of whatever political complexion, proceed in these ways, in the brutal world which this decade is likely to provide, this continent has a fighting chance. If, however, national leaders bravely call the people to the barricades, but their deeds do not match their words, we may have reason to recall the words of Pitt the Younger when he received the news of Napoleon's victory at the Battle of Austerlitz: "You can roll up the map of Europe. It will not be needed again in a very long time."
IS AUSTRALIA LIGHTLY TAXED?

Australians are constantly being told that they are among the most lightly taxed people in the Western world. Indeed, this myth is repeated, almost ad nauseum, by many economists and by supposedly intelligent media commentators who should know better. The inference one is intended to draw is that there is considerable scope for tax increases in Australia without detracting from incentives and without damage to the national economy — since other high standard of living countries are carrying a substantially greater burden of tax.

Most Australians, it is fair to say, feel that their taxes are much too high. At quite modest levels of income, personal income tax takes a painfully large cut out of the pay packet — almost a quarter. Moreover, any increase in income, gained as a consequence either of good work or promotion or even just from inflation, may attract taxation at absurdly high rates. Retired people, living on their own savings (and not on the Government) already being robbed by the thief of inflation, are confounded and angered by the savage impact of taxes especially provisional tax, on their near-fixed incomes. Those fortunate enough to be in the high income brackets can hardly be expected to take kindly to the subtraction by the tax authorities of over 60 per cent of any additional earnings. It is hardly surprising, human nature being what it is, that large numbers of these people are tempted to resort to ingenious, though utterly reprehensible, devices to avoid paying their fair share of taxes.

With this background in mind, it must come as a shock to most Australians to be told repeatedly that they are among the most lightly taxed people in the Western world. In fact, they are not.

The notion that Australia is "lightly taxed" derives from an absurdly simplistic comparison with other countries of total tax revenues as a percentage of Gross Domestic Product. Using this basis, Australia, in 1976, ranked 17th among 23 O.E.C.D. member nations; that is, the ratio of total tax collections to G.D.P. was less than that of all but six countries.

These are the percentages for the 23 countries. (They are taken from a paper given by Professor R.L. Matthews to the Summer School of the Australian Institute of Political Science last January.)

<table>
<thead>
<tr>
<th>Country</th>
<th>Total Tax Revenue as % of G.D.P.</th>
<th>Ranking in Order</th>
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<tbody>
<tr>
<td>Australia</td>
<td>30.0</td>
<td>17</td>
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<tr>
<td>Austria</td>
<td>38.9</td>
<td>9</td>
</tr>
<tr>
<td>Belgium</td>
<td>41.9</td>
<td>7</td>
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<tr>
<td>Canada</td>
<td>32.9</td>
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<tr>
<td>United States</td>
<td>29.3</td>
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</table>

There are a number of reasons why these figures give a false picture of...
comparative tax burdens.

For one thing they take no account of how the tax revenues are raised. For another, they take no account of how the taxes are spent.

As far as the raising of revenues is concerned, the crucial distinction is between direct taxes on income and indirect taxes which result in higher prices. By far the most painful taxes are those which directly reduce the income of the taxpayer. Indeed, indirect taxes, after their initial impact, become accepted as a daily part of life and are, for the most part, not "felt" as taxes at all. They certainly do not affect enterprise or the incentives of the ordinary person. The "burden" of taxes is regarded by most of us as what we are compelled to hand over to the tax authorities out of our hard-won earnings or out of moneys received from the investment of our savings.

Taking income tax as the criterion of "burden" the picture becomes entirely different. Far from being the "most lightly taxed" country, Australia becomes one of the most heavily taxed. As a proportion of G.D.P., personal income taxes are higher in Australia than in all countries with the exception of New Zealand, the United Kingdom and the four Scandinavian countries. Total income taxes, including taxes on business profits, make up a greater proportion of total tax revenues than any other country except New Zealand and Denmark. By this measure, Australia from being 17th on the tax graduation of the O.E.C.D. countries becomes 3rd. (Only in three countries, New Zealand, Canada and Luxembourg, do company taxes form a higher proportion of G.D.P. than in Australia.)

The following figures (for 1976) give the picture for 23 O.E.C.D. countries.

<table>
<thead>
<tr>
<th>Country</th>
<th>Personal Income Tax as percentage of G.D.P.</th>
<th>Income Tax (incl. profit taxes) as percent of total tax</th>
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</thead>
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<tr>
<td>Australia</td>
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<tr>
<td>United States</td>
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<td>43.3</td>
</tr>
</tbody>
</table>

There is a lesson for Australia in this comparison. From the important standpoint of incentives to enterprise and efficiency, it is clearly desirable for Governments to move away from direct taxes to indirect taxes as a means of raising revenues. This, indeed was recognised in the Asprey Report on Taxation.

One reason why Governments have shied away from it stems from the indexation mechanism. It is feared that increased prices resulting from indirect taxes might be translated into higher incomes through the community, thus inflaming an already threatening inflationary situation. Another reason derives from the conventional supposition that indirect taxes are regressive, penalising the lower incomes, and are more inequitable than direct taxes. In his paper to the Political Science Summer School, Professor Matthews attacked this
assumption. He said that progressive income tax “has been thoroughly discredited as a policy instrument for achieving the redistribution of wealth... Personal income tax has become largely a tax on wage and salary earners as other income groups, at both the upper and lower ends of the income scale, have been able to take steps to avoid or evade tax”.

There are other reasons why the ratio of tax revenues to G.D.P. does not provide an acceptable measure of the comparative tax load. In comparing the “burden” of taxes in different countries much will depend on the purposes to which taxes are applied — that is, the ways in which the moneys raised are spent.

Here there are very big and significant differences between Australia and the countries, for instance, of the European Economic Community. In these countries, Government has assumed virtually total responsibility for social security, whereas in Australia much is still left to the discretion and choice of the individual person. The European peoples, as is to be expected, are naturally called upon to pay heavily in taxes for the benefits they receive. Indeed there are specific social security contributions amounting, for example, in France to some 15 per cent of G.D.P. and in Germany to 12.5 per cent.*

In Australia greater weight is placed on self-reliance and self-help and the individual is expected, so far as possible, to make provision for his own retirement and for the protection of himself and his family by contributing to private superannuation and health funds and through life insurance policies.

* Social Security contributions in most countries are funded by levies on employers and employees of which the larger part is paid by employers. The levies on employers most probably are recouped in prices and this might be regarded as an indirect tax.

If Australia were to follow the European example, our taxes would necessarily rise at least to European levels. In that case the individual would be deprived of voluntary choice as he would no longer have the financial means to contribute to private schemes. It is indicative, for instance, that whereas in Australia the total value of life insurance policies amounts to some 102 per cent of National Income, in many European countries the comparative figure is under 50 per cent.

A further reason for the higher level of taxes in the European countries is that education is virtually nationalised whereas in Australia private schools and institutions comprise a sizeable part of the educational structure. It is unlikely that many Australians would want to change this situation, particularly as it is becoming more and more widely recognised that the private schools are the pace-setters in the standards of education provided. Those who support taxes of European dimensions appear to forget about important considerations of this kind. Perhaps, if they thought more deeply, they might change their views.

The difference between the European methods and our own (with consequent differences in tax revenues) is based on widely divergent political philosophies, involving a totally different view of the role of the State. Those who implicitly argue for taxation on the European scale seldom, if ever, bother to explain that this would necessarily deprive the individual Australian of the freedom and personal choice which he or she enjoys under our present arrangements. The wide disparities in taxes as a proportion of G.D.P. between Australia and such countries as France, Germany, Sweden and Denmark reflect a deep-rooted difference in viewpoint about the appropriate spheres of private and public
responsibility. The cost of providing protection against economic misfortune or old age, or for health and education, has to be borne under all systems. In Europe, the “cost” is paid for almost wholly in taxes (including specific social security contributions). In Australia, taxes are less because the individual meets a substantial part of the cost in a private capacity.

Those who imply that there is substantial scope for increasing taxation in Australia would thus have to prove a case that the government-dominated systems of the European countries are superior, in all respects to the methods we have followed in Australia. Many Australians with their strong traditions of individualism and dislike of paternalism might take a lot of convincing.

There is a further highly important consideration which has a bearing on the relative tax “burdens” of Australia and European countries. Australia, unlike Europe, is a young, developing country, rich in resources, and with its population spread far and wide over a massive continent. This has meant that a much greater proportion of tax revenue is devoted to funding huge public works projects and the public infra-structure required as a basis for the development of remote and climatically inhospitable areas. In the three years 1974 to 1976, whereas in Australia public investment expenditure amounted to 13.7 per cent of total public sector spending, in France and Germany it comprised only 8.9 per cent, Sweden 8.5, Holland 7.4, Canada 9.1 and the U.S.A. 6.0. The fact that the benefits of much of the capital expenditure currently being undertaken will only be reaped in the fairly distant future places a much heavier load on taxpayers in the present.

When assessing the “burden” of taxation, taxes used to finance social security or to pay for educational and health services must clearly be considered of a very different order from taxes used for funding public projects. In the first instance, the taxes represent no more than a transfer of income between different sections of the community. Some gain, others lose. But with public works expenditure there are no immediate benefits: the whole community is called upon to reduce present consumption for the sake of the future.

The “tax argument” is just another example, and a classic one, of the danger of reaching conclusions — particularly making international comparisons — based on broad aggregates, without regard to the meaning of the aggregates and to the differing circumstances which account for them.
DISCRIMINATION —
TURNING THE TABLES

by Lauchlan Chipman

Foundation Professor of Philosophy, University of Wollongong and Visiting Professor, Department of Jurisprudence, University of Sydney

Is racial, ethnic or sexual discrimination ever justified? The answer, according to some influential thinkers and a growing number of political activists is a qualified yes. If a policy of active discrimination in favour of a class whose members were previously victims of unjust discrimination is likely to correct an imbalance in their representation in position of power, prestige, and social responsibility then, it is argued, the deliberate introduction of an equal and opposite bias into the relevant system of selection may be justified so long as the imbalance exists.

A common element in many pieces of existing or proposed anti-discrimination legislation is an exception clause permitting limited 'reverse' discrimination, as it is commonly called, provided that it is corrective in intent.

Reverse discrimination is one form, indeed the most extreme form, of affirmative action. Those who advocate programmes of affirmative action point out, quite correctly, that merely by making discrimination against women and racial or ethnic minorities in employment, education, and access to housing, goods and services, illegal and punishable, one does little to positively advance their position. Unlocking the front door is of little benefit to someone who cannot make it along the path from the street.

Affirmative programmes seek to accelerate progress along the path, by such schemes as the provision of scholarships and bursaries to minority members, and the raising of consciousness and self-respect, so as to encourage the pursuit of traditionally male or majority occupations, education levels, and social roles.

To many radical critics however, such schemes are too modest in ambition and too slow in result to really meet the immediate needs of those whom they are intended to benefit. Thus they propose the introduction of a period of reverse discrimination in such fields as educational and public service appointments, and the senior managerial levels of the corporate sector.

Never is it seriously suggested that underqualified women or minority members be appointed to these posts. Rather, it is said that those of such applicants who are adequately qualified should in some way receive a bonus for their status. The bonus might be the minimal one of requiring that, should two qualified applicants otherwise be of equal merit and one of them be a women or member of a racial or ethnic minority, then the latter should be preferred. Or it might be the more substantial one of requiring an active search amongst the qualified applicants for the best of the women or minority candidates, and giving
such a person, if one is identified, absolute preference, this policy to be continued until a socially representative composition of the staffing is achieved.

It is precisely this form of discrimination which is causing increasing anxiety among many contemporary philosophers of law. Some make the economic criticism that such an overriding policy of preferential hiring must mean a systematic increase in inefficiency, as it will often mean passing over the best qualified applicant and appointing someone of lower probable competence. But this is not the nub of the issue, for many would accept that a relatively short period of reduced efficiency, if such did eventuate and were it the only cost, would not be too high a price to pay for the improved society which is expected to result.

Rather, the issue is whether two wrongs can, after all, add up to a right, or whether they just add up to a bigger wrong. The second wrong is said to be committed once the most highly qualified person is passed over on the ground of sex, race, or ethnic origin. This is a very probable consequence of those schemes which propose 'quotas' or 'targets' and 'timetables' for government departments or firms to achieve a socially representative composition. It is not avoided by calling such schemes guidelines rather than directives, for guidelines have a habit of functioning as directives in the hands of the diligent bureaucrat.

If wrong, is reverse discrimination a justifiable wrong, or a lesser evil than other evils which might persist without it? To my mind no adequate justification has ever been given. It cannot be justified as compensation for past wrongs, for it is no compensation to those women, or minority members, wrongly denied jobs or access to goods and services in the past, that others of the same sex or grouping are given privileged access to them now or in the future. While it is certainly important in their formation of role models that young people see more women and minority members in positions of high public responsibility, it is surely better that they see them winning them on merit, and not merit supplemented by considerations of status.

Indeed one inevitable consequence of reverse discrimination is that all women and minority members who hold high office are placed under a cloud for it is said, or silently assumed, by others that "they would have got there on their own."

With the current Australian interest in human rights at the national parliamentary level and with a healthy and increasing public interest in the position of women and minorities generally, there is sure to be a growing demand for policies which imply or sanction reverse discrimination. To concede such policies, and in effect use selective racism to fight racism, or limited sexism to fight sexism, is not only fundamentally wrong in principle, but most unlikely to achieve its very desirable objectives.
REGrets

It is with deep regret that we record the deaths of two of our colleagues.

G. R. Mountain, A.M.

G. R. Mountain ("Rowley") had a longer association with the I.P.A. than any other person, whether a member of the Council or Staff.

As the senior economist of the National Bank and a personal assistant to the Chief Manager, Sir Leslie McConnan, he was involved in the early steps which led to the establishment of the Institute in 1943. He became a member of the original Editorial Committee (formed in 1943) and he remained a member until his death — a remarkable record of 36 years service.

As a highly respected economist, both in business and academic circles, combining a deep knowledge and love of theory with a flair for the practical — the two by no means go together — Rowley's advice and assistance over this long period were invaluable. His close friendship with the Director of the I.P.A., C. D. Kemp (which commenced when they were boys at Scotch College) meant that many of the ideas which eventually appeared in the Institute's publications were discussed at length between the two. Mr. Kemp depended on him greatly.

During the attempted nationalisation of the trading banks in the late 1940s by the Chifley Labor Government, Rowley played an important role as an adviser to Sir Robert Menzies. His invariably cheerful personality, his acute sense of humour, and his kindness to others, won him the affection of his colleagues in the banking world, in the Institute and in University circles (with which he never lost touch). He will be greatly missed by many people.

We extend our deepest sympathy to his wife, Lyndsay, and his family.

W. A. Beattie

W. A. ("Bill") Beattie, a leading agricultural and pastoral consultant, joined the Council of the Institute in 1964 and became a member of the Executive and Editorial Committee in the same year. In 1975 he was invited to succeed Mr. Angus Jones as Chairman, a position from which he resigned in 1977.

Bill Beattie's great service to the I.P.A. had its roots in a passionate belief in the importance of the Institute to the community and in the goals it was pursuing.

For many years he had a close personal association with the Director. He was a prolific letter writer and was accustomed to set down his views on paper at considerable length for Mr. Kemp's consideration. They had a breadth and a vision which gave rise to fresh insights and were invariably provocative of thought.

Unpretentious and unassuming, Bill was liked and respected by his associates. He had a dual love — a love of scholarship and a love of his country. It distressed him when he felt that the realisation of its great potentialities was at times being frustrated by second-rate leadership or by unwise policies.

Not long before his death he completed a book, "Australia's North-West Challenge", to demonstrate to his fellow-Australians a great national task that still remained to be done. Unfortunately he was too ill to attend the launching of a work to which he had devoted untiring energy and his considerable intellectual gifts.

Bill was an important influence in I.P.A. affairs and will be sadly missed by his colleagues.

We extend our sincere sympathy to his wife, Kay.
“NUCLEAR ELECTRICITY — A CONTINUING OPTION”

... is the name of a video-tape recently produced by the Institute of Public Affairs.

The tape runs for some 18 minutes. It is entirely Australian in context and we feel it makes a worthwhile presentation of factual data whilst proposing a case in favour of the use of nuclear energy as an acceptable option.

Many thinking people will find the tape interesting and informative on a critically important subject. In secondary schools it will be a useful teaching aid and a stimulant to senior classroom discussions. It has been approved by Departments of Education in various States.

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Every year since World War II prices have risen. The average rate of increase per year is 5.6 per cent.

The I.P.A. has just published a booklet which endeavours to explain why Australia has failed to overcome the scourge of INFLATION. The author is C. D. Kemp, Director of the Institute from 1948 to 1976.

Mr. Kemp attributes our inability to defeat inflation to faulty and superficial diagnosis by the economics profession and to a failure of leadership by Governments.

On the latter, he writes that "Governments neglected to enlist the support of the people by education and information on the causes of inflation and on the unavoidably unpleasant measures required to bring the monster to heel."

A majority of the economics profession, Mr. Kemp claims, was strongly biased toward an ever-expanding public sector, consequent heavy taxation and supported unrealistic goals of development and immigration.

The price of the Booklet (including postage) is $1.