Editorial — AN AGENDA FOR THE NEW GOVERNMENT

The Liberal-Country Party Coalition should set about fulfilling the hopes to which it gave rise in 1975.

It should move with decisiveness and courage toward the over-riding goal of Smaller Government, lower taxes and limited Bureaucracy.

The substantial reduction of personal income tax is the key to many doors – the restraint of income demands, the curbing of inflation, an improved climate of industrial relations, greater incentives to work and enterprise, faster economic growth, the cure of tax avoidance, and the acceptance of necessary sweeping changes in Health, Education and Welfare.

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The Liberal-Country Party Coalition will be expected to turn in a much better performance in the coming three years than in the past five. Indeed, it will have to if it is to stand a chance of re-election in 1983.

1975 to 1980 were years of great disappointment for the Australian people, and not least for many of the Government’s most ardent supporters. The Government failed by a wide margin to achieve the goals which it set for itself in 1975 and to fulfil the hopes of the people who put it into office.

Inflation, although reduced, has continued to run in double figures; employment is greater, but so is unemployment; interest rates are higher not lower; taxes are higher; public sector
spending, far from being substantially reduced, has increased; national economic growth has faltered; pockets of poverty persist; the grossly swollen bureaucracy (Federal and State) remains grossly swollen; the national health monstrosity is, if anything, more monstrous; much of the education system is in disarray; industrial relations are chaotic; the corrupting disease of tax avoidance has spread to such an extent as to create threatening divisions in Australian society.

The Government, which appeared to have a clearly defined philosophy in 1975, by 1980 seemed to have no philosophy. It gave the impression of having lost its way. Principle seemed to have been abandoned and the Government to have succumbed to the pressures—imagined or real—of short-term political expediency. Above all, the Coalition’s over-riding objective of reducing the size and place of Government as such in the society, and of allowing more scope for the exercise of individual choice and initiative, had not been realized. Indeed, on balance, some ground had been lost.

In 1975, shocked by the inanities of the Whitlam years, the people were in the mood to accept—indeed they expected—sweeping and far-reaching changes over the whole spectrum of Australian affairs. It is no great exaggeration to say that when the Fraser Government first came to power it could have got away with just about anything. Decimated at the polls, the Opposition was virtually non-existent. Dismayed, and frightened by the Whitlam policies, the people had given an overwhelming vote of support for the new Government. Australians wanted, above all, a return to practical common-sense, moderation and stability, and an end to the gross irresponsibilities of the three years of Labor Administration. It is clear, looking backward, that the Government at that climactic period acted much too tentatively, much too indecisively. What was needed was shock therapy, not slow cures; not a shoring-up of rocky structures but total renovation.

The Government has now been given the opportunity to redeem itself—an opportunity which it owes less to its own past performance than to the shadow of Whitlamism and to the irrelevance of Labor policies to the problems which Australia will face in the 1980 decade.

The great danger for the Government is that its thinking may have got, so to speak, “stuck in the groove”, that it has become so habituated to the present tentative, gradualist approach that it may be unable to break free to embrace the adventurous, even unorthodox policies necessary to deal with the problems afflicting the nation. If this is so, we can expect to see “more of the same”.

The Government might start by thinking afresh its basic philosophy on the place and role of government as such in the community. “Big Government” is not just a matter of the size of government, measured by the expenditures of the public sector contrasted with those of the private sector. It has to do with the prevailing attitudes of mind, on the one hand, of the Government itself and, on the other, of the people. At this point of time the people have come
to expect government to solve all their problems, big and little, and government has unwisely allowed itself to be jockeyed into accepting this role. A government is not God. It has no power to work miracles. It consists of ordinary fallible human beings just like ourselves. The new Government should now get out from under. It should frankly confess that its ability to effect big improvements, great advances, is severely limited, that improvements are dependent, in the main, on the people themselves. The Government might, in effect, say to the people something like the following:

"The Government is not Father Christmas; it does not possess the Key to the Kingdom; it cannot dispense prosperity by a stroke of the pen; it cannot guarantee higher living standards, better health and education; it cannot, by itself, even cure inflation and unemployment. All of these things depend on your work, your enterprise, your wisdom, your acceptance of what is right and responsible. Government cannot create the great society. Only you can do that. What Government can do is introduce policies which will help and encourage you to do it. But it is really, in the end, up to you."

At the recent election we heard a great deal about the imponderable of "leadership". But what precisely is leadership in a democracy? Surely it is to lead and guide public opinion, not slavishly to follow it (or, perhaps more accurately, to follow what those in the remoteness of government offices, imagine it to be). Modern governments are tending to take community attitudes as something fixed, something that cannot be altered, as parameters which determine the limits of what is politically feasible for them to attempt, as, so to speak, a constant in the political equation. The task of leadership is to change those attitudes where they are obstructing the progress of the community, where they are preventing governments from doing what needs to be done in the best interests of all. This is a task which falls on the shoulders of all holders of political office, but pre-eminently on those of the Prime Minister. Indeed, it could be said to be his main task.

Recently, the Deputy Prime Minister was reported as saying "It is extremely hard to get support for a slower growth in spending – let alone a reduction in spending – from the community...". Mr. Anthony's statement might be taken to imply that there is not much the Government can do to alter present policies unless the people change their ideas about what they expect from government. But true leadership in a democracy should attempt to change public attitudes, not just respond to them. This is the difference between "leadership" and what might be called "followership".

Let us give an example of what we mean by "leadership".

The root cause of most of our present problems in Australia – above all, inflation – is that practically all of us are attempting to obtain a much higher standard of living than the economy can support. Instead of the Government restraining these claims, it is aiding and abetting them in numerous ways – particularly by hand-outs to powerful, vociferous sections – because it believes that political expedience makes that necessary. It is time the
Government started to read the community some simple lessons. It could say:

"We can all have higher standards if we work to achieve them – in other words, if we raise our productivity. There is no other way. We cannot have higher standards if we choose more leisure or if we are not prepared, to use an old-fashioned phrase, 'to give a fair day's work for a fair day's pay.' Every section of the community believes that it is not getting enough, that it is entitled to more as if 'more' can be conjured up just by government waving a wand. 'More' can be achieved, but only through a more serious application to work by the whole community: not by strikes, not by clamouring for more benefits from governments, not by making extravagant demands on tribunals concerned with the fixation of wages, salaries or other incomes and hours of work. Australians, indeed, are in the wonderfully fortunate position of being able to have most of the things they want. All we have to do is put in the effort to achieve them”.

We place “leadership” (in the sense defined above) first on the agenda for the newly elected Government. This, we believe, must precede the far-reaching changes that are necessary right across the economic and social spectrum.

But words, important though they are, are not the only tools of leadership. There is also leadership by salutary example. So next on the agenda we suggest that the new Government should follow the example set by Mrs. Thatcher and announce forthwith that no increases in salaries and benefits for a period of 12 months, will be granted to Parliamentarians. This should be applied also to public servants, judges and other officials coming within the authority of the Commonwealth. This we believe to be a necessary pre-condition for slowing down the rate of increase in incomes throughout the community and thus for curbing inflation. The Government would gain, too, in enhanced respect and public confidence.

The other pre-condition for slowing the rate of inflation – and this is the third and, in our view, the most important item on the agenda for Government attention – is a major reduction in personal income tax. There are two ways – not mutually exclusive – in which this might be accomplished. The first is a large cut-back in public sector spending; something very much to be desired for its own sake. This, however, would be impossible to achieve without a radically different approach in at least three areas of Government – Welfare, Health and Education. (We will say more about this later). The second is to recast the structure of taxation so as to put the major emphasis on indirect rather than direct taxes. Consideration could be given to the introduction of an across-the-board expenditure tax at the retail level. This may be preferable to the much discussed Value Added Tax, primarily because it would be much simpler from an administrative standpoint.

Our fourth item on the agenda calls for a change of Government thinking on budgetary and monetary policy. In recent years, under the influence of Milton Friedman, the Government has been obsessed with the size of the Budget deficit (or surplus). This, indeed, has come to be
taken as almost the sole test of responsible economic management. By this standard, the 1980-81 Budget, which was the first to achieve a surplus, should have been the Government's best. In fact, it was its worst. By increasing total Commonwealth expenditure in real terms the Budget put us back on the road to “big government” and in essence amounted to a rejection of the Government's professed philosophy. Nor, despite the surplus, was the Budget effective in a counter-inflationary sense. In determining whether a budget is inflationary (or the reverse), the actual size of government expenditure is more significant than the relationship of receipts to expenditure—so long as the deficit is kept within moderate bounds. It is the magnitude of government spending which determines the level of taxes, and direct taxes (beyond a certain point) as well as indirect taxes find their way into prices. The pre-occupation of the Government (and the media) with the deficit has limited the scope of economic debate and has been one of the great fallacies underlying economic management in recent years.

When the Coalition came to power in 1975 it rightly recognized that practically all our difficulties had their origin in the size of public sector spending—inflation and, thus, unemployment, the level of interest rates, the rate of growth, the lack of incentives. The measure of its success (or failure) over the next three years will therefore be determined by the strength of its resolution in cutting back the public sector. How can it go about it? Three areas should engage its earnest attention—Welfare, Health and Education. These are our fifth, sixth and seventh items on the agenda for the new Government.

The whole philosophy behind the provision of Welfare benefits must clearly undergo a radical change. The central principle underlying Welfare should be that benefits provided from the public purse should be strictly confined to those who cannot manage without them. That is, they should be paid only on the basis of genuine need. This is the only way to eradicate the pockets of poverty which so distress the Brotherhood of St. Laurence. Middle income and even wealthy people who are at present benefiting in one way or another, from government hand-outs—family allowances, pensions, for instance—should be expected to get by under their own steam. This they are already perfectly capable of doing, and will be even more so if personal income taxes are substantially reduced. Welfare should be for the 10 per cent who can’t do without it. It is not for the 90 per cent who can.

In the last 10 years the Health system has grown into a horrible, frightening national monstrosity, gobbling up resources which could be applied in more economically effective directions. All efforts to improve it, to curb its insatiable demands, have only made confusion worse confounded. They have been unsuccessful, we suggest, because the natural automatic market restraints on the use of medical, hospital and pharmaceutical services have been abandoned. The most important restraint is the one-time financial nexus between doctor and patient, chemist and patient, and hospital and patient. Since nearly everything is paid for out of the public purse or out of health insurance funds, there is no incentive to economy either on
the part of those who provide the facilities or of those who use them. (One of the more obvious excesses is the provision of virtually free drugs for all financed from the public purse). The irony is that all this huge expenditure on Health is, according to many experts, failing to bring about any improvement in the general health of the community. If sanity is to be restored, there must somehow or other be a return to market principles.

The third area is Education. By common consent, the Education system is in a state of disarray. Nobody is happy with it – educational experts, parents, students, employers. It is probably one of the chief reasons accounting for the tragic level of youth unemployment. One thing is certain: the discontents are not going to be overcome by governments yielding to the clamour for more and more money. Free tertiary education is one of the great problem areas. It is leading to the over-expansion of tertiary educational institutions and is encouraging young people to undertake higher education, many of whom would not otherwise consider it. Also it is grossly inequitable. The education of the progeny of quite well-to-do families (those most likely anyway to proceed to universities) is being partly paid for by P.A.Y.E. workers of moderate incomes (whose children are less likely to enter tertiary institutions). The Government should re-introduce some system by which those who benefit from higher education should be required to pay at least part of the cost.

Action along the lines indicated above on Welfare, Health and Education would naturally provoke howls of rage from many sections of the community. The Government should turn a deaf ear to them and act with courage and resolution. In the end, it will be seen to have been right and, indeed, may eventually win the respect of those who at first disagree with it.

Here again, a key element in gaining public acceptance of the above proposals is a major reduction in personal income tax. If people are left with more money in their pockets, they will have less reason to complain about receiving less from the public purse. Moreover, the goal which the Government set itself in 1975, that is greater individual freedom of choice in disposing of one’s earnings, would be realized.

The ninth item on our agenda for Government action is the Bureaucracy. We rank the Bureaucracy with the National Health Service as the greatest monstrosity in contemporary Australia. It is monstrous not only in size but in privileges, power and financial rewards. Unless this huge vested interest, this deadening burden on the economy, is curbed now, cut back to size, it could become a threat to our democratic way of life. (We haven’t always agreed with Clyde Cameron, but we agree with him on this.) It is up to the Government to work out how to deal with this admittedly daunting problem, but it will certainly not be sufficient to impose modest ceilings on public service staffing to prevent further growth – a principle which was, in any case, inexplicably abandoned in the 1980-81 budget. * One item that needs urgent attention is the outrageously generous superannuation provisions applying to Commonwealth and State Parliamentarians and public servants.
Our tenth item on the agenda is for the Government to explore some means of imposing ceilings on increases in incomes, perhaps through the taxation mechanism, for a defined period. If this is not done, the competition for skilled labour resulting from the resources boom could lead to a serious acceleration in the rate of increase in incomes and thus of inflation.

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It will be readily seen that the agenda proposed for the new Government places quite crucial importance on a sweeping reduction in the burden of personal income tax. This, indeed, is the key to many doors— to the curbing of inflation, the restraint of income demands, an improved climate of industrial relations, to greater incentives for enterprise and work, to faster economic growth and thus higher employment, to public acceptance of necessary changes to Welfare, Health and Education, and, not least, to the cure of the cancer of tax avoidance.

The coming three years will be critical years for the Government. They will be critical years for Australia. They may be our last chance to deal with problems which, if not grappled with now, will by 1983 be too big for us to do much about.

Above all, the Government will require courage— the courage to be unpopular, the courage to experiment, to adventure, the courage to confront mighty vested interests, the courage to be true to its own professed principles, the courage to do what it knows (and what most responsible people know) to be right. But, after all, that is no more than what the people are entitled to expect of those they elect to power.

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On November 6, the Government took a step in the right direction by announcing an investigation directed at overhauling Government departments and agencies. One must, however, be sceptical since the appointment of committees of investigation often turns out to be an excuse for not taking action.
Should We Abolish the Department of Social Security?

Despite the mammoth budget of the Department of Social Security—$9,700 million in 1980-81—many people still live in comparative poverty. The remedy is not to further expand the already huge outlays, but to make genuine “need” the only test for the receipt of benefits. The “negative income tax” concept should receive consideration.

In the current financial year, the Federal Government expects to spend $9,700 million—27 per cent of total budget outlays—on the activities of the Department of Social Security. Despite this massive expenditure—almost 10 per cent of G.D.P.—there is constant criticism that our social security system is not making adequate provision for the genuinely poor and that what provision it does make is often inequitable, discourages people from entering the work force and is excessively costly to administer.

To alleviate poverty a social security system should allow for the coverage of all potentially poor people besides providing adequate support for those with insufficient private means. In spite of the mammoth expenditures of the Department of Social Security, the present system does not cover all poor people.

The suggestion that current pensions and other benefits may be inadequate is, of course, open to argument. Adequacy can be determined only in relation to an acceptable poverty line. But the choice of such a line is a highly subjective matter. However, if we accept what has become known as the Henderson poverty line*—and both major political parties appear to have done so—then we must conclude that some pensions and benefits are inadequate. For example, in November 1978 an unemployed single parent with three children received a benefit of $90.20 a week, only 74 per cent of the poverty line of $121.40 for a family of that size.

The coverage of the present system is not exhaustive, mainly because the system is based on the categorization of recipients. The categorization is on the basis of “disability” such as age, sickness and unemployment. There are, however, a number of people who do not fit into any official category but are living on incomes below the poverty line. According to the Poverty Commission about 25 per cent of all poor did not have any specific disability which would make them eligible for a pension or benefit.

On the other hand, whereas there are some poor not covered by the existing system, there are many beneficiaries who are not poor. The system is also inequitable because people in very different circumstances can enjoy similar benefits.

An example of this is the family allowance scheme where all children attract assistance
regardless of the financial circumstances of
the family. In fact, five out of every six
children belong to non-poor families.

A further inequity of the system arises
when people in what appear to be similar
circumstances receive different levels of
assistance from the Department of Social
Security. For example, a single aged pen-
sioner receives 10 per cent more than a
person on unemployment benefit, yet the
only difference between the two may be a
small age gap.

The fact that people in different economic
circumstances may receive the same benefit
is not only inequitable, it is also economically
inefficient. It means that the resources
available for social security are not concen-
trated where they are most needed. As a
consequence it becomes difficult to alleviate
poverty and ever-increasing amounts of
money are allocated to the Department of
Social Security. Indeed, expenditure on
social security has been a major reason
behind the rapid increase in the size of the
public sector in Australia in the past ten
years. In the ten years to 1978-79, Federal
Government expenditures as a proportion
of G.D.P. increased from 24 per cent to 29
per cent. The near doubling of proportion of
G.D.P. directed to social security (from 4.2
per cent to 8 per cent) has accounted for
one-third of the growth in Federal Govern-
ment expenditure.

There are a number of reasons for this
increase – for instance, the growth in the
proportion of aged people in the population
– but any move towards provision of uni-
versal instead of selective benefits will
clearly add greatly to the costs of the
system.

The problem of increasing cost will be-
come more serious in the future. Even
without new categories of beneficiaries, the
number of dependants on social security is
growing faster (2.4 per cent last year) than
the number of people in the workforce
/about 1 per cent last year).

Also, any system that discourages work
effort will increase the cost of providing
social security. The categorization of ben-
efits, for example education and rent allow-
ance, by type of need (in addition to cate-
gorization by disability as discussed above)
can produce a powerful disincentive to
work. Individuals who receive more than
one benefit may have all their benefits
withdrawn simultaneously, following an
increase in private income. The effect of
this may be to leave the individual worse off
than before the increase in private earnings
from work.

The categorization of benefit recipients
by “disability” has two further disadvantages.

First, the process of categorization is
complex and costly to administer. Currently,
it is costing over $150 million a year just to
**run** the Department of Social Security.
(Exact figures are hard to come by since the
Department does not publish figures for
some major items such as rent, repair and
maintenance). It appears that the cost of
disbursing one dollar of social security is
more than twice the cost of collecting one
dollar of tax.

Second, the process of categorization by
disability, and the complex criteria and
variety of agencies which it involves, may
compel individuals applying for benefits to
undergo a thorough investigation not only
to ascertain whether they qualify for benefits
at all but also to determine which categories
of benefits they are entitled to receive. The
potential beneficiary may feel that he or she
is being stigmatized and suffer a loss of
personal dignity.

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The inescapable conclusion is that the present structure has not provided Australia with an efficient and economical system of social security. The universal elements of the system and the categorization of beneficiaries are the main weaknesses. A system where all payments are on the basis of economic need alone would appear to have overwhelming advantages. One scheme worthy of consideration is known as the "negative income tax".

Under such a scheme those with an income above a certain threshold will pay tax, as most people pay now. People with an income below the threshold would, after satisfying a work test, receive payment (the negative income tax) from the Government. The negative income tax would not depend on the individual's age, health, employment or any other status. At the same time no one would receive a benefit simply because of their particular status.

Such a re-structuring of the system would not only go further towards alleviating poverty in Australia, but would do so in a more equitable, economically sensible and administratively efficient manner, and with less stigmatization than the present system.

A negative income tax would do more to alleviate poverty than the present system because, in the absence of categorization, all persons in need will be eligible for assistance. Also, with a highly selective system a given social security budget would be directed exclusively to those in need, and is therefore more likely to provide adequate benefits.

The absence of categorization, and the consequent similar treatment of people in similar circumstances, would make the system more equitable.

In the first instance, the negative income tax could replace or incorporate the old-age pension, service pensions, invalid pensions, widow pensions, supporting parent benefit, unemployment and sickness benefit, guardian allowance, mother's allowance and the family allowance. But, in addition, the scheme could incorporate areas currently not covered by the Department of Social Security: for example, the Tertiary Education Assistance Scheme, and Secondary and Adult Allowances administered by the Commonwealth Education Department as well as some State Welfare Department benefits, such as those for deserted wives.

Since work disincentive arises mainly from the multiplicity of programmes, and the lack of co-ordination between them, the more programmes that are incorporated into the negative income tax the more likely is the disincentive to work to diminish.

Also, since the high cost of administering the present system is, at least in part, due to the categorization of disability and type of need, the negative income tax can be expected to be much less costly to run.

Once considerations other than economic status have been removed from the social security system, there would no longer be a need for separate departments to administer the collection of income tax and the disbursement of benefits. Indeed, with many individuals moving several times in one year from a position of positive tax-payers to one of negative income tax recipients, there would be substantial gains in efficiency from a closer co-ordination of the two activities.

In the absence of categorization and with positive and negative transfers handled by one department, every one from the very wealthiest to the poorest would deal with the same department, thereby removing the stigma sometimes attached to assistance.
received from the Department of Social Security.

Some activities of the Department of Social Security cannot be incorporated into a negative income tax. In particular, these are activities that involve counselling and assistance and rehabilitation. Whether or not a negative income tax is introduced, these activities are probably better provided from a point closer to where they are needed. As such they are probably best transferred to State or Local Governments.

There would, of course, be problems in the integration of the Social Security and Taxation Departments. In particular, the tax system and the Social Security system use different concepts of income and income units and different assessment periods. Social Security assumes that income is shared within the family (man, wife and dependant children) while income tax is levied more or less on an individual basis, with little regard for the family circumstances of the tax-payer.

Even if the activities of the two Departments are not combined there is a strong case for a common approach to the income unit. The transfer of social security payments to the Taxation authority might then produce a long overdue review of our approach to the unit of taxation.

* Footnote: Although using the Henderson poverty line for purposes of illustration we believe that it is open to serious criticism as an acceptable measure of poverty.
I.P.A. Annual Meeting Address

NATIONAL SELF-DISCIPLINE NEEDED

by

Sir Ian McLennan, K.C.M.G., K.B.E.
Chairman of The Australia and New Zealand Banking Group Limited.

Sir Ian retired as Chairman of BHP in November 1977, having spent the whole of his working life with that Company. Prior to becoming Chairman in 1971, he was Managing Director, and, prior to that, Chief General Manager.

He became Chairman of the Australia and New Zealand Banking Group Limited in October, 1977.

He has held a large number of public positions, including Chairman of the Defence (Industrial) Committee for some 17 years.

Some of his current activities include President of the Australia-Japan Business Co-Operation Committee, President of the Australian Academy of Technological Sciences, and Chairman of Interscan Australia Pty. Ltd.

He is a Fellow of the National Academy of Engineering (USA) and holds honorary degrees of Doctor of Engineering (Melbourne and Newcastle Universities) and Doctor of Science (Wollongong University).

He chaired the Queen Elizabeth II Silver Jubilee Appeal for Young Australians which raised over $5,000,000 and carried on until October of this year as Chairman of the Trust formed to administer the Fund.

Many thanks, Mr. Chairman, for inviting me to address you this afternoon. I am a great admirer of your organisation. I well remember that one of your early Councillors – probably a Founding Councillor – was Mr. Harold G. Darling, then Chairman of BHP. He was Chairman when I joined that Company and for my first seventeen years with it. He was a truly great man, and your Institute has always attracted great men to its Council.

Because of other commitments, particularly a visit to Japan, I prepared this address prior to the elections. Therefore, I did not know the result when this speech was prepared, and perhaps more than otherwise may have been the case I have avoided politics, and in particular party politics, in
but we can take credit for having nurtured the environment and, in a relative sense, for ensuring that our cities generally have excellent community facilities. Our situation has improved greatly in the last twenty-five years – 1955 to 1980. I have chosen this period for review because 1955 was after we had substantially recovered from the ill-effects of World War II.

A few figures will illustrate the situation to you. While these figures cannot be regarded as precise, they are certainly indicative. I quote the average hours of work necessary to buy certain common purchases then and now. (See Table below).

In the opening passages of the book, they refer to seeing a car bumper sticker in Sydney saying "I'd rather be sailing". I have not seen this particular sticker myself, but I think most of us would agree that it does express an attitude that is very prevalent in Australia at the present time – namely, an attitude that leisure and recreation (going sailing) are preferable to work.

Australia has come a long way in nearly two hundred years, and now enjoys, taking all things into consideration, perhaps the highest standard of living in the world. While we can take a good deal of credit for this, we cannot take it all. Australia has benefited from an incredibly rich and varied endowment of minerals and other natural resources, and almost all our populated regions enjoy for most of the year a salubrious climate and pleasant living conditions – none more so than Melbourne.

We cannot take credit for these benefits, but we can take credit for having nurtured the environment and, in a relative sense, for ensuring that our cities generally have excellent community facilities. Our situation has improved greatly in the last twenty-five years – 1955 to 1980. I have chosen this period for review because 1955 was after we had substantially recovered from the ill-effects of World War II.

A few figures will illustrate the situation to you. While these figures cannot be regarded as precise, they are certainly indicative. I quote the average hours of work necessary to buy certain common purchases then and now. (See Table below).

As I have said, this state of affairs is due, in substantial measure, to our efforts over the years – hard work by some of us, adoption of new technology, prudent Government for most of the time, and so on. But is is also due to our good fortune as a nation. Again here I refer to our great mineral wealth and the massive overseas demand for our minerals, particularly by Japan and to a lesser degree by Korea and EEC countries whose own reserves have been depleted. This has brought considerable export income to Australia and has enabled us as a nation to greatly improve our standard of living.

This improvement has been achieved relatively easily. And so the argument has now developed that we can reduce our hours of work and still maintain our living

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standards. I warn you that a little later I am going to criticise this line of thought, but do not think that this criticism is directed only at the unions and their members. This whole attitude is very widespread in our community, and all of us should carefully examine our own position in relation to the work ethic and the rewards associated with it.

I have no doubt that, with lesser hours of work, we could look after ourselves quite adequately. But surely this is not the whole story. We live in close proximity to South East Asia. Indeed, we are the closest highly developed and industrialised nation – with perhaps the exception of Japan – to about half the world’s population, and a very great proportion of that population is living in what, to us, must be regarded as appalling conditions.

Additionally, of course, we have our own poor and under-privileged in this country. Surely it is our obligation to share our good fortune with our less fortunate neighbours, and to do all we can to improve the lot of the less fortunate in this country. Indeed, it is our obligation to endeavour to do this on an even wider scale, embracing the under-privileged of the whole world.

One can be sure that we will not do this by reducing our hours of work and indulging in more leisure, and I stress that I say this to all our people and not just to unionists who are agitating for shorter working hours.

And does our affluent community genuinely need a shorter working week at present, and, more important, can our economy, which rises or falls on its ability to compete with other trading nations, afford it?

Let us look at some facts.

We hear much talk these days of a 35 hour week replacing a 40 hour week. The facts are that it is pure fiction to suppose we have a 40 hour week now. In any year, we take off almost two weeks of working days for statutory holidays – Christmas, Easter, Melbourne Cup and so on. A large number of the workforce have four weeks’ annual leave (some more), two weeks’ sick leave (taken whether sick or not) and an average of at least two weeks’ long service leave. This adds up to ten weeks a year or almost one-fifth of our working time. Thus already the average working week is, in effect, 32 hours not 40, and we are therefore talking of reducing this to 27 hours per week. Does that sound reasonable?

From time to time, we all see statistics setting our various facets of the Australian economy and of the Australian way of life. Depending on the point of view of the person presenting the statistics they can show that everything in the garden is lovely or that we are rapidly on our way to perdition. However, I thought I would quote to you this afternoon a few statistics about which there can be little argument. I think you will agree with me that we cannot be too proud of some of them. All the money figures are expressed in U.S. dollars.

The figures show that in 1979-80 the average weekly wage in Australia was lower than in the United States, Japan or West Germany. Against this, Australians work fewer hours to earn their wages than their counterparts in those other countries. In the US, the average working week is 40 hours, in Japan 43 hours, and in West Germany 46 hours. And, as I have noted already, on top of their not insubstantial wages, Australian workers enjoy probably the most generous range of additional benefits – long service, annual, and sick leave, public holidays, holiday leave loading and so on – of any industrialised country in the world.
Despite this situation, the productivity of Australian workers compares poorly on an international basis. Latest available figures show that in 1978, our productivity per worker was 11% below that of Japanese workers, 26% less than in the United States, and a massive 36% less than in West Germany.

Obviously, this worrying state of affairs is related to our poor international record for working time lost through industrial disputes. Here the actual figures are worth quoting. Between 1973 and 1977, for every 100 Australian workers there were 147 working days lost each year through strikes. In the US the comparable figure was 110 days lost, in Japan 25 days, and in West Germany 3 days.

The average Australian is well known overseas as being of an independent frame of mind and not tolerating discipline easily. This, of course, is one of our virtues, but it also is the basis of one of our problems. I, for one, would hate to see us lose our national characteristic of independence, but how much better it would be if, combined with this, we could exhibit substantially more self-discipline. We do this in times of national crises but these are few and far between.

It would be far overstating the case to say that currently there is any situation resembling a national crisis. Still, I think it can be said that the whole world is going through a more difficult period at present than it has since World War II. The genesis of the problem is no doubt the so-called oil crisis and the sky-rocketing price of liquid fuels.

Any thoughtful person must have realised that this situation was going to come about, OPEC or no OPEC, because the world's supply of liquid fuels is running out, and it profits us little to argue whether our reserves will be very sadly depleted by the year 2000 or by the year 2020. Sufficient to say that probably half of the world's current population will be alive when this happens. Pretty well all industrial nations have planned very badly for the impending fuel shortage, and indeed they still plan badly today. We should be proud that Australia is one of the nations that has really done something about it.

I had made up my mind on the subject of this address about half-way through September, and I was greatly pleased to receive soon after this the latest issue of this Institute's excellent publication, "Facts". The first page has a short article entitled "What kind of a people are we?", and I would like to quote to you from it. I trust, Mr. Chairman, that I will not be infringing any copyright by so doing. I now quote:-

"While millions of human beings, many not far from Australia, are struggling just to survive, some Australians will cease work at the drop of a hat to try to raise their already high living standards still higher, or in pursuit of more leisure time. Many others are intent on evading their proper share of taxes. What kind of a people are we?

Do we deserve this country with all its privileges and opportunities, when people in so many parts of the world are being subjected to unspeakable horrors? While we choose to stop work and to seek more leisure, Communist forces are pushing toward the Indian Ocean and the South China Seas, ever closer to the Australian Continent. Does this ominous fact make no impression upon us?"
We can deserve to retain this wonderful, lucky country only if we work for it as well as for ourselves, only if we are responsible, strong and compassionate and aware of, and concerned with, what is happening in the wider world”.

The excerpt expresses succinctly and in better words than I can, the burden of my argument. I would only add that I do not ascribe all our problems to the people who cease work at the drop of a hat or to the people who evade their proper share of taxes. There are plenty more of us who could work a little harder and for more of the year if only we had a mind to do so.

And now to return to my main theme. There are many reasons why we should foster relations with our Asian neighbours. Perhaps I could set down four of these.

1. Humanitarian
2. Demographic
3. Economic common sense
4. Defence

Let me deal briefly with each of these reasons.

1. There is little need for me to expand on humanitarian factors. While we are enjoying a virtually unequalled standard of living, millions around the world, many in neighbouring Pacific countries, are living in conditions of extreme poverty. As I have indicated earlier, we do not need to reduce our standards of living to provide more help and share some of our wealth. All we have to do is work harder and produce more, and then develop an equitable system of distributing our surplus production.

2. Demographic reasons also require little elaboration. In short, it stands to reason that, unless we maintain control of the situation, people from other countries are going to cast envious eyes at us.

3. It clearly makes economic common sense for us to foster our relations with the South East Asian countries. Because their economies and ours complement each other so well, it makes economic sense not just to us, but to them, and indeed to the whole world. We often hear excuses for Australia’s poor performance in some manufacturing activities, and one of these is that our local market is so small. Surely this is offset to a major degree by our nearness to some of the largest potential markets in the world.

Let me digress for a moment and pursue this thought. I am sure that a dispassionate observer from outer space would find it hard to understand why Australia, with its abundance of raw materials, excellent ports and splendid living conditions, finds it well nigh impossible to compete with the Japanese in the automobile markets of, say, Malaysia or Indonesia. This is particularly puzzling when you consider that Japanese wages are about equivalent to ours, hours of work are not too different (their average working week is 43 hours), and they have virtually no raw materials, notably energy resources. It is hard to avoid the conclusion that the major reason for our relative lack of competitiveness is the effort we put into our manufacturing industries compared with the effort put in in other countries – particularly Japan.

I have emphasised the economic common sense of fostering our markets to our north, and we have, of course, already done a good deal in this regard. The Government has
taken many steps but so, also, has private industry, and I am sure much more progress will be made. For instance, we have the various business co-operation committees. The original one was the Australia Japan Business Co-operation Committee started seventeen years ago. Several others have followed, including Australia-China, Australia-Indonesia, Australia-Korea, and Australia-Philippines. These are valuable forces for good in our relations with our northern neighbours.

Obviously, in fostering economic relations with our northern neighbours, we must be rational. They already are, and increasingly will be, markets for our rural and mineral products, but they in turn must have markets for their goods. There is no point in building up their economies if we exclude their products from ours.

4. Situated as we are in the south-western Pacific, Australia and New Zealand are really outposts of western type civilisation. It is only common sense that, from a defence point of view, we must work hard at fostering our already good relations with our northern neighbours, and perhaps I need not expand on this item any more at this particular time.

Having talked at some length about the need for Australia to do more to help other less fortunate communities, let me say that Australia's record in providing overseas aid is not particularly inspiring. Papers issued recently with the Federal Budget show that in 1980-81 our contribution will be 0.42% of GNP — the lowest level since 1977 — whereas the United Nations' recommended level is 0.7% of GNP.

However, one effort of which I think we can be particularly proud, is our assistance to Papua New Guinea — the biggest single recipient of Australian aid. PNG has grown up into a self-governing nation with very few of the pains that have been so apparent in other countries, particularly some in Africa. I think that in large measure this can be ascribed to the understanding and help of successive Australian Governments and to the many contributions — financial, cultural, and economic — that we have made.

It is to be hoped that in the years to come, we will feel equally proud of what we have done to assist the poor and under-privileged in our own country, and in the rest of the world, particularly to our near north.

Perhaps we should bear this prominently in mind when we talk about working less hours and having more leisure.

### Table

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<th>Australia</th>
<th>U.S.A.</th>
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<td>Average weekly wage</td>
<td>258</td>
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<td>(1979-80)</td>
<td></td>
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<td>Average working hours per week (1979-80)</td>
<td>39</td>
<td>40</td>
<td>43</td>
<td>46</td>
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<td>No. of working days lost per 100 employees 1973-77 (annual averages)</td>
<td>147</td>
<td>110</td>
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<td>Gross domestic product per head (1978)</td>
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<td>9660</td>
<td>8480</td>
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<td>Cost of a medium priced car Annual expenditure on research, per person (1975)</td>
<td>6681</td>
<td>6250</td>
<td>5151</td>
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IPA Review — October December, 1980
THE BATTLE LINES OF THE FUTURE

President’s Address — I.P.A. Annual Meeting, 28th October, 1980.

Sir Wildred Brookes, C.B.E., D.S.O.

Well, The Election is over and the tumult and the shouting have died— for which most of us, I am sure, will not be sorry.

But elections themselves do not solve problems, and the problems which Australia is facing are still with us.

High inflation is still with us.
High interest rates and slow growth are still with us.
Unemployment is still with us.
Taxes which destroy incentives and which incite massive tax evasion are still with us.
Poverty, for some, is still with us.

These are all matters of great moment which no Government of recent years has been able to resolve.

But underlying them all is a far greater and more fundamental problem; indeed it is the problem which, in large part, gives rise to all the others.

This is the growing size of government as such— “big government” as it is popularly called. At the root of it is the increasing and alarming tendency for people of all sections of the community to look to Government to solve all problems and to set right all imagined shortcomings and, I regret to say, the growing propensity of politicians and bureaucrats to give the impression that they have all the answers. In the 1980’s “big government” will, in the I.P.A.’s view, be the greatest issue facing our society. It will transcend all others and form the battle-lines of tomorrow.

One would hope that, in the next three years, the Government would make a strong start toward solving this problem and reducing the size and influence of big government and its accompanying bureaucracy. In the last five years the Fraser administration, while it did many good things, made no progress toward this over-riding objective, although it came to power in 1975 with “small government” as the central pillar of its philosophy. Indeed, it seemed to lose some ground in the fight against “big government”.
Recently we have heard a great deal from bureaucrats (and the media) about the need for structural adjustment of certain industries. Maybe some action will later be necessary, but we are entitled to ask whether similar principles will be applied to inflated government departments.

Let me give you some supporting facts!

Estimates suggest that total public sector spending will this year be close to 40 per cent of the Gross Domestic Product compared with less than 32 per cent only six or seven years ago.

Total tax receipts of the Commonwealth (as a proportion of G.D.P.) – despite the fact that an increasing proportion of tax-payers are intent on trying to avoid paying their proper share – will be greater than at any previous period of Australia’s history.

This year’s Commonwealth Budget, by contrast with previous budgets, inexplicably allows for some further increase in the already swollen bureaucracy. Why?

Press Reports indicate that there are now an incredible 254 autonomous statutory corporations, boards and commissions in the Commonwealth sector of Government alone. About 34 new ones – repeat 34 – have been set up in the last few years. The State Government are also profligate in the numbers of bodies created.

In the next three years, the new Government will face a time of trial, a decisive testing period. It is the I.P.A.’s view that it should move with strong strides toward the goal of small government. If it does not, if it acts only at the periphery and not at the roots of the problem, then Australia could well become a government-dominated, bureaucratic-ridden society, with most Australians, either directly or indirectly, on the Government payroll.

What do I mean when I suggest that the Government should act at the roots of the problem?

Everyone knows that something is drastically wrong with the Welfare System.

Everyone knows that something is drastically wrong with the Education system.

Everyone knows that something is drastically wrong with the Health system: that monstrosity!

These three areas of spending make up almost 50 per cent of total Commonwealth expenditure – $16,400 million. The State and Local Government expenditures have to be added to this.

Notwithstanding massive and increasing expenditures, the Welfare system has not eliminated poverty; the Education system is not producing a better educated and better adjusted community; the Health system is not giving rise to a healthier people, but is encouraging the gross over-use of medical and hospital facilities and the harmful use of medicinal drugs. We are now reputed to be the greatest “pill-takers” on earth: what an achievement!

It should be clear by now that the elimination of poverty, better education and health services are not going to be achieved by Governments spending more and more money.
Moreover, spending more and more money will simply mean higher and higher taxes. This would further reduce incentives, further erode the productive base of Australia's economy, further stimulate the huge and morally contemptible industry of tax avoidance.

We must include here the vast underground and unrecorded "cash economy" which the Commercial Bank of Australia recently estimated at an incredible $10,000 million a year. $10,000 million!

What kind of rag-bag society are we becoming under the influence of the pernicious, demoralising doctrine of "big government"?

If the trend toward "big government" (with committees to report on everything from Dan to Beershebah) is to be halted, a complete change of thinking and approach will have to take place towards, among other things, Welfare, Education and Health. Also, I believe, on methods of taxation. Tinkering is no good: what is needed, in the jargon of the day, is total restructuring. Recently the Income Tax Acts have grown like Topsy.

Three basic principles must, in my view, underly any reforms.

Welfare benefits must be confined to those who really need them. They should not be paid to those who do not need them, but only think they do.

The costs of Education, at the tertiary level at least, should be paid for, in part, perhaps by loans to those who benefit from it. They should not be placed wholly on the shoulders of the general tax-payer.

In the Health area, some direct financial nexus between doctor and patient must be restored, and the system of "subsidised drugs" should be abolished except for pensioners and the like.

Reforms based on these principles would permit substantial reductions in taxation—a goal which State and Federal Governments years ago pledged themselves to achieve.

In addition, major changes in methods of taxation are now urgently called for. As Professor Russell Mathews has pointed out, personal income tax is no longer an equitable and just method of raising government revenues, since increasing numbers are managing to avoid paying their proper share. Taxes should now be concentrated on expenditure, rather than income, perhaps through an "across the board" consumption tax. This would not only re-introduce some degree of equity into the tax system but would strike a telling, perhaps fatal, blow at the moral cancer of tax avoidance. Moreover it is in line with what is happening in other Western Countries.

These are all matters to which the I.P.A. will be giving its full attention over the next few years.

I now have pleasure in announcing the appointment of a new Director—Mr. Gerry Hampel. On behalf of us all I extend him a warm welcome.

As it is time I made way for a younger man, I shall be retiring shortly. May I say to you, our supporters, how much I have personally appreciated, as President, your encouragement and the financial and moral support you have given the I.P.A. I now say thank you, and may our endeavours to help build this nation prosper.