OBJECTS

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1. To inform the Australian public of the facts of our economic system and to raise the level of economic literacy in Australia.
2. To work always for a full and friendly understanding between employers and employees and for good relations throughout industry.
3. To study the means by which private business enterprise can be made to operate better in the interests of all sections of the Australian people.

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Editorial —

A NEW PHILOSOPHY OF POLITICS NEEDED

The causes of our discontents — inflation, unemployment, economic stagnation, soaring interest rates and the rest — lie more with us, the Australian people, than with governments.

Governments cannot be expected to provide all the answers. Nor should they pretend they can. The pre-eminent responsibility of government is leadership, a continuing endeavour to create a climate of opinion in which the technical remedies for our ills will have a chance of working.

What seems to be needed is no less than a new philosophy of politics which recognizes the limitations of both the responsibility and competence of governments.

The Victorian State Election is now well behind us. The Tasmanian Election has come and gone. But sighs of relief will be short-lived. Next year there will be the Federal Election. And the year after that, no doubt there will be another election, somewhere in Australia. In between there will, of course, be the frequently recurring by-elections. An so ad infinitum.

In between the “yearly” elections we are bombarded without cease by the artillery of the news media whose overwhelming concern is with politics — the daily “expert” commentaries; the fortnightly or monthly opinion polls on the state of play in the fortunes of the personalities and parties; the personal power struggles of the leading actors in the continuing political drama (or comedy); the speculations about the outcome of the next election which begin almost the day after the results.
of the current one have become clear; the multiplicity of radio and T.V. interviews, designed not so much to elucidate issues as to discomfort the interviewed. Each crisis, big or little, is seized upon with almost indecent delight. If there is no crisis, the media contrive to manufacture one. And if there is nothing remotely important, trivialities will serve the media’s purpose to keep the pot simmering.

It would not be surprising if most people were fed to the teeth with it all, and, if they are not, it is because they have come to view politics more as a form of day-to-day real-life entertainment than as a serious business.

It is difficult to imagine how sound, sane, constructive government is possible in this feverish environment of yearly elections, of never-ending political “crisis” and gross over-exposure of politics and politicians. If the standard of government in Australia falls below what many people may expect, it could be attributed to the fact that our political representatives, particularly Ministers, are seriously distracted from their responsibilities by the incessant demands of the media on their time and energies. In the 1981 Robert Garran Memorial Lecture, a former senior public servant, Sir Arthur Tange, said, “The power of journalists to divert the Executive from seriously addressing real national problems is great and destructive — greater perhaps than their editors and proprietors realise”.

The inevitable outcome of almost yearly elections is that, notwithstanding the good intentions of some political leaders, government as such gets bigger and bigger, more intrusive, more profligate in the spending of the people’s money. Elections tend to become an auction in which the contending parties try to out-bid one another in expenditure proposals, centring particularly on hand-outs for the more clamorous, highly organised, politically powerful sections of the community. While an exception may fairly be made in the case of the Fraser Government, so-called “small government” parties often lag little behind their opponents in the bids they make to attract the favours of the voters. Thus, in the recent Victorian elections, a Liberal Party pamphlet showed that 12 out of the 14 major policy proposals listed would entail increased government spending.

However, there is a far more serious, more deep-seated consequence of these constant elections and of the over-concentration on politics in between elections. This is that the people, not unnaturally, come to think that all their woes, all the difficulties they are experiencing, have their
roots in poor government, and, consequently, that all their problems are capable of being rectified by government, that every solution is a political solution. And many politicians themselves seem to be the victims of the delusion just as much as the people.

With what many would regard as an excessive attention devoted to politics by the omni-present media, one would think that the real issues, the real problems, facing the country would at least be clearly defined. But that is, unfortunately, far from so. Among the people it is fair to say that bewilderment and confusion are widespread and that there is a fundamental misunderstanding of where the seat of our discontents lies.

The seat of our discontents, in fact, lies not with governments: it lies with us, the Australian people. Most of the ills that afflicts us are caused not by governments: they are self-created, the outcome not so much of government ineptitude, not so much of grievous policy miscalculations, as of our own follies and excesses.

This is far from widely understood: in fact it is doubtful whether it is understood at all — even by governments themselves. Political parties in their desperate quest for power give the impression that if we will only trust them with the reins of office they will come up with all the answers. And perhaps they even believe they can.

It would be hard to name one major problem in the economy for which the Australian people themselves are not largely responsible and for which the solution is not, at least partly, in their own hands.

Take inflation! We have had ten or more years of rapid inflation (around 10 percent a year) and governments are no nearer to solving it today than they were at the beginning of the 1970s. Rapid inflation is caused overwhelmingly by increases in our incomes — brought about by unbridled claims by most sections of the community — which bear no relation at all to the capacity of the economy to pay the increases without steep rises in prices. Ponder on these two figures.

— Since 1969/70 Australian production per head of population has risen by 18 percent.
— Average money earnings have risen by 255 percent.

We would be on the way to overcoming inflation tomorrow, if, as a community, we limited our claims for more money — whether in the form of wages, salaries, professional fees, superannuation or anything
else — to what we, as a community produce. But we have got into the habit of demanding, and expecting, yearly rises of the order of 10 to 15 percent when our production increases only by something like 1 to 2 percent.

Whatever it may claim, no government, no political party, can solve inflation, or even greatly reduce it, while this discrepancy continues. The remedy lies mainly with ourselves, in our own attitudes and actions, not in the corridors of power at Canberra and in State Government offices.

Take economic growth! — the source, in the end the only source, of higher living standards all round. This, like inflation, is not, in the main, the result of government policies. It depends overwhelmingly on how hard we work, how intelligently, how responsibly, we apply ourselves to our everyday tasks. If we insist on working shorter hours and below our capacity, on indulging in strikes and work bans that reduce production and damage our export markets, we are destroying the prospect of the better living standards which all of us seek, from pensioners and others dependent on welfare benefits to politicians and public servants themselves.

Take unemployment! Much of it arises from the fact that wage rates are escalating so steeply and are now so high that many employers cannot afford to pay them and many firms are encouraged to substitute capital for labour. As wages and salaries rise more than those of our overseas competitors, the competitive strength of Australian industry is weakened and losses of employment result. Some of it (unemployment) may be caused by the reluctance of a minority to take on jobs they don't like, preferring to live frugally on the dole.

Take the problem of government finances! Even with high taxation, most governments find difficulty in balancing the books. Despite this there are serious deficiencies in transport, power, education and indeed throughout most of the public sector. Yet the losses of government revenues caused by tax evasion and avoidance have been estimated by the Chairman of the Parliamentary Public Accounts Committee at an incredible $8 billion a year (about one-third of present total income tax receipts). No wonder that those of us who pay our taxes complain about the unfair burden we are carrying and seek to increase our take-home pay by making inflationary claims for higher wages and salaries.

And there is a further aspect of it. The size of government spending
and the difficulties in balancing the budget arise, in part, from strident demands for government assistance by all sections of the community — business, farmers, hospitals, education, welfare recipients and the rest. At the same time these demands are usually accompanied by contradictory demands for lower taxes. No wonder that public finances are in a constant state of crisis!

Our other problems, soaring interest rates, the housing crisis, the collapse in the share market, the shaky balance of payments, have their roots in the same soil.

Another delusion of our times is the belief that the economic malaise which afflicts not only Australia but some other Western countries is capable of being cured by the right technical economic measures. If that were so, the wealth of economic expertise available to governments throughout the world would surely have discovered the appropriate medicine. The truth is that the problems which plague us can be overcome only by a change in human attitudes. Without that change, the technical and financial weaponry is largely powerless. "The fault, dear Brutus, is not in our stars but in ourselves".

What we have been saying does not, of course, absolve government from responsibility for our economic ills. Perhaps because of fear of unpopularity, perhaps because of a naive belief in the omniscience and omnipotence of government as such, Australian Governments and Parliaments have neglected to explain to the people where the seat of their troubles lies. Government's position can be likened to that of a doctor who, in treating a patient, refrains from telling him that the causes of his poor health lie in over-eating or immoderate drinking. The drugs which the doctor prescribes can do little to help the patient unless he mends his ways. So the economic "cures" available to government cannot work unless the people themselves change their attitudes and unless the irresponsible among us are prepared to conduct themselves as responsible, contributing citizens.

What seems to be needed now is no less than a new philosophy of politics: a breakaway from political and economic concepts and ingrained modes of thought which have become irrelevant and which, accordingly, are proving impotent to cope with the problems that beset us.

The essential premise of this new philosophy must consist of a frank recognition of the limited capabilities of government itself, an
acceptance of the fact that it is neither within the power or competence of government, nor is its responsibility, to provide solutions to all the difficulties confronting us. Governments (and that embraces their representatives whether in the political or administrative branches) must first cure themselves of the present-day disease of the arrogance of government: the fostering of the notion that they have all the answers, that nothing is beyond them if the people will give them their trust.

The new philosophy should be rooted in the proposition that the pre-eminent responsibility of government is leadership. Leadership does not just mean making the right decisions on highly complex issues. It means, first and foremost, a continuing effort to mould public opinion, to change prevailing community attitudes and ideas, no matter how deep-rooted, where these ideas are destructive of the national well-being, where they stand in the way of the realisation of the objectives which most of us seek. Leadership means being absolutely frank with the people, even at the risk of incurring unpopularity. It means a persistent endeavour to create a climate of opinion in which the technical remedies for our economic and social ills will have a chance of working.

Above all, it means setting an example of behaviour, a standard of incorruptibility, which will command popular respect and inspire public confidence. It is not only in what it says, but in the example it provides, that leadership is expressed. Only in doing the things that they want and expect others to do, will political leaders achieve the moral authority and respect which will dispose the people to get behind them. Politicians who make over-indulgent provisions for their own retirement are in no position to impose a means test on the pensions of the elderly struggling to maintain a comparatively frugal standard of comfort.

The central pillar (and message) of the new philosophy must consist in the incontrovertible truth that our well-being as a people, our personal standards of living, the stability of our economy, indeed the destiny of our country, are very largely in our own hands, not those of government.

Those of the liberal faith should find such a philosophy easier to embrace than those of a socialist persuasion because the primacy of the individual as such is at the heart of the liberal tradition. But the liberal philosophy is concerned not just with individual freedom but also, and above all, with individual responsibility. In fact, they are really two sides of the same coin, but one side of the coin, that of responsibility, tends to be disregarded by many who profess the liberal faith. The so-called
“dries” in the Liberal Party, though they emphasize important truths and perform a valuable function, should not overlook that “free markets” will not function effectively unless people generally behave responsibly within the market context: unless, that is, there are the right attitudes. It was the abuse of market privileges that, in the past, led to the kind of regulation and interference by governments that “the dries” deplore.

Each individual, privileged, as Australians are, to live in freedom in a democratic community, must assume some responsibility for the welfare of the whole. That, indeed, is the price that freedom demands. When that is widely understood and practised, many of the problems that plague us will be on the way to solution.

The modern-day emphasis of liberalism should thus be on responsibility, because unless that is generally accepted through the community, our discontents will continue, and no government, no matter what its persuasion, will be able to resolve them.
THE CAMPBELL REPORT

The Report of the Committee of Inquiry into the Australian Financial System has aroused more interest and debate than any major government inquiry since the second World War. This is as it should be. The report is the outcome of an imaginative and painstaking investigation of the highly sophisticated and complex money market which has developed in Australia in recent years.

The Report states that its "main concern is...to promote a financial system that is efficient, competitive and stable."

A financial system that allocates resources efficiently is desirable because it ultimately maximizes total community welfare.

Besides allocational efficiency — that is, a system that channels savings towards activities which yield the highest returns — the Report argues for operational efficiency and dynamic efficiency. Operational efficiency is achieved by minimizing the amount of resources used up in the process of transferring funds from lenders to borrowers. Dynamic efficiency refers to the extent to which the system can adapt to changing circumstances and its ability to generate new financial services and raise productivity.

The Report’s reference to "stability" is concerned not with the macro-economic stability of prices but the stability of the financial sector itself. Stability of the financial system does not simply promote efficiency, it is the cornerstone of the financial system. Indeed, in the absence of overall stability (but not necessarily that of individual financial institutions) the whole payments mechanism would fail.

In summary, the Report's recommendations were made while bearing in mind;
— the government’s macro-economic objectives;
— the impact on the allocation of real resources of a system that channels financial resources to where they yield the highest returns;
— the need for a system that uses the minimum of resources in providing financial services;
— the need for a system that provides a wide range of choice and is able to adjust to changing circumstances;
— the importance of stability to the financial system; and the advantages of a competitive system.

The Report that emerges from these considerations shows a clear understanding of the workings of the market and is underpinned by a consistent, well thought-out and generally unassailable theoretical analysis.

Nevertheless, there is something a little worrying about the approach taken by the Campbell Committee. In particular, too little attention appears to have been given to some of the social and political
implications of several important recommendations.

The terms of reference required the Committee to make recommendations to the Government on the Australian financial system which will promote "free enterprise objectives" and "broad goals for national economic prosperity". In other words, in the first place the Report's recommendations ought to be assessed in terms of the extent to which they promote the attainment of a "high level of employment and rates of economic growth consistent with stable prices".

The approach taken by the Committee is to ask of each case of government intervention whether it promotes the efficiency of the capital market.

There are three broad types of intervention in the financial market: those directed at macro-economic policy (e.g. the 30/20 rule); those with some social objectives in mind (e.g. ceiling interest rates on bank housing loans); and prudential safeguards (e.g. asset ratios for insurance companies).

While accepting government intervention for prudential reasons, the Committee accepted little intervention for macro-economic management purposes, and, somewhat inconsistently, almost none for the purpose of promoting social objectives.

The Committee's approach of almost totally rejecting controls over the financial market to promote "subsidiary" government objectives (i.e. objectives other than the macro-economic objectives) could be questioned. The objectives referred to concern assistance to particular sectors of the economy for distributional or other social reasons: for example, assistance to savers through special concessions given to superannuation funds, or assistance to borrowers in the housing, rural, small business, and export sectors through interest rate controls.

While conceding the importance of these government objectives and noting, correctly, that economic theory indicates that there are more efficient ways of achieving them than through the manipulation of the financial system, the Campbell Report mostly fails to consider the impact of their recommendations on markets other than the financial market. After all, an efficient financial market is desirable only because it promotes the efficient allocation of real resources.

The Committee's recommendations seem to have been based on long-run considerations — some might say the recommendations have ignored the time perspective altogether — for the Report says little about the problems of implementation in the current economic and political environment.

Some of the recommendations are clearly in line with recent trends or are an extension of recent trends, while other recommendations appear to fly in the face of recent government action.

In the area of deregulation there has been significant deregulation of banks in recent times. For example, in December
1980, the Reserve Bank lifted restrictions on the freedom of the trading banks to bid for deposits of more than 30 days. Recently the banks have been permitted to accept interest-bearing deposits under 30 days but not under 14. Much of what the Campbell Report has to say in this area is consistent with such action. On the other side, the Committee's recommendations that governments withdraw from direct participation in the financial market by divesting themselves of government-owned financial institutions (a recommendation we applaud) is in direct opposition to government policies. Not only have government-owned banks and insurance companies expanded in recent years, but all political parties appear to be committed to further expansion. In the recent Victorian elections, for instance, both major parties included in their platforms, promises of new financial institutions to promote the welfare of the small business sector.

While the Report's recommendations in this area are undoubtedly valid, the likelihood of their implementation would seem to be remote.

Like so many other advocates of change, and in particular those favouring a move from more to less government intervention in the market, the Campbell Report gives little attention to the dynamics of change and the cost of change.

Neo-classical economic analysis, based on comparative static models, clearly shows that a market with no government intervention allocates resources more efficiently than a market encumbered by government regulations. It is relatively easy to prove, for instance, that a tariff-free economy is better (in terms of a higher GDP) than an economy protected by tariffs. It is not so easy for economic analysis to show exactly what would happen to an economy, working reasonably well with tariffs, once tariffs are removed. The repercussions, both economic and social, may be so great that even if the higher standard of living is eventually attained, it may be at a social cost not acceptable to the community or an economic cost that, for many years, could outweigh the economic gains.

A similar consideration ought to be borne in mind when considering the recommendations of the Campbell Report. The present financial system has on the whole served us fairly well, at least until the dramatic changes of the 1970s. Where government regulations have hampered the efficient workings of the market, new institutions arose to bypass them. These new institutions, working outside the restrictive government regulations, have been highly competitive — very much more so than those under government control. An example of this is the Cash Management Trusts, the development of which has been encouraged by the restriction which prevented banks from offering interest on deposits of less than 30 days.

If, as the Report recommends, banks were permitted to accept interest-bearing deposits at call, funds would very likely move away from the Cash Management Trusts to the banks, because of other facilities that the banks offer.
While the Report recommends the freeing up of entry into the market to various forms of financial intermediaries, it does so subject to a number of conditions. Foreign exchange controls are to be removed, but transactions in foreign exchange would only be carried out through banks — because, the Committee argues, that would facilitate supervision. Banks will also have the exclusive advantageous right to provide cheque facilities. This, it is argued, will promote stability. In other words, where the Committee sees a possible conflict between efficiency and stability, it has opted for stability.

Only a limited number of licences are to be issued to foreign banks. It is not clear why foreign banks should not enter the Australian market as freely as domestic banks. The argument that these banks would not be run in the interests of the host country is not convincing. In a competitive market we can expect all banks to be subject to the same pressures and thus work similarly, or else make losses and go out of business. In a competitive system, foreign banks are not likely to behave differently from domestic banks simply because of their ownership. They should thus pose no danger to the Australian economy.

If the Committee's concern is that foreign banks would overwhelm potential domestic entrants into banking then we have the surprising position of the champions of free enterprise, as the Committee has been characterized, advocating the protection of a domestic industry from foreign competition with a non-tariff barrier. Would the Committee members support the application of similar principles to, say, the car or textile industry?

The Committee's recommendation to limit foreign banks seems to have been influenced by considerations of political acceptability. Many Australians oppose an increase in the level of foreign ownership of the Australian economy, and feelings tend to become even stronger when the business in question is a financial institution. From the standpoint of practical politics these feelings cannot be ignored.

If political aspects were paramount in this case, then it seems inconsistent that in other recommendations the Committee showed so little concern for political considerations. In what has become the most publicized recommendation of the Report, the removal of controls over interest rates, in particular for housing loans, the Committee seems to disregard political realities.

While, politically, there may be serious consequences for any government that attempts to remove the ceiling from housing rates, the real economic consequences, in fact, may not be very substantial. This is so for two reasons.

First, with banks able to charge higher interest on housing loans we can expect more money to be available for housing from the banks. But will there be more housing funds in total? Will not the additional funds available through the banks be offset by a reduction in moneys handled by other lending institutions in the housing fields? In other words, there
could be a mere transference of funds from one institution to another.

Second, the objection to the housing interest subsidy is not mainly because of the income distribution effect but rather because of the resource allocation effect. That is, the demand for and investment in housing is greater than it would be if interest rates on housing were higher. But in the event, higher interest may not have much effect because of the other concessions for housing, the most important of these being the non-taxability of imputed income from home ownership.

If the ultimate change in the housing market is possibly not to be so great, is the improvement in the efficiency of the capital market, with its attendant political cost, worth the risk for any government?

While we applaud the recommendations that will enable banks to compete more effectively, care must clearly be taken in the timing of the introduction of the proposed changes.

The failure to look at the implication of change in the financial market on other markets — other than assume on the basis of economic theory that there would be gains in efficiency — is seen also in the attitude towards superannuation. Here the Committee was satisfied to come to a number of conclusions rather than to make definite recommendations.

First, the Committee concludes that superannuation funds ought to be assessed for tax on income at a rate representative of the marginal tax rates of their members, where income includes both investment income and contributions by employers and self-employed less operating expenses. At present the funds are exempt from income tax if they comply with the 30/20 rule.

Secondly, the Committee felt that employee contributions to funds ought to be fully tax deductible. At present there is limited tax deductibility for individual contributions to superannuation funds.

Thirdly, the Report concludes that benefits received from superannuation funds ought to be tax free. At present, 5 percent of lump sum benefits is assessable for taxation.

The impact of these changes on the labour market could be considerable. It has been estimated that to maintain benefits (if the Committee's recommendations were implemented) employer contributions would have to be increased by at least 50 percent and possibly by more than 100 percent. This could well lead to the wholesale abandonment of employer-sponsored superannuation funds as we know them today. Yet some 30 percent of the workforce have come to accept employer contributions to superannuation funds as an essential part of their remuneration package. These employees can be expected to react very strongly to the threat of loss of benefits, particularly when note is taken of public service retirement provisions.

If the private sector is unable to provide adequate superannuation, then the burden will fall increasingly on the public
sector. Already, criticism of private sector superannuation has centred on its failure to relieve the public purse of a significant portion of the social security bill in respect of retirement pensions. The implementation of the Report's conclusions would make such criticism even more pertinent than it is at present.

If the total burden of provision for people in retirement were pushed onto the public sector, the large increase in budgetary outlays would not only make effective control of the money supply difficult, but would also carry serious repercussions for a government committed to reduced public spending.

The authors of the Report maintain that their conclusions and recommendations “need to be seen as an integrated package”. Based, as they are, on the principles of a free market, the recommendations are consistent. But this does not mean, as the Committee seems to imply, that the Government must implement all or implement none. Indeed, it would be a pity if the Government rejected the whole of the Report simply because it could not see its way to implementing some of its recommendations.

While we have expressed reservations about some aspects of the Report, we believe the bulk of the recommendations ought to be implemented at the appropriate time. The time for some, but not all, of the recommendations is clearly now.

The 30/20 regulation could be abolished forthwith. Under this regulation financial institutions such as life insurance companies are given exemption from tax if they hold 30 percent of their assets in public securities with 20 percent in Commonwealth securities. In recent time the differences between public and private sector interest rates has substantially narrowed. Thus, there would probably be little risk to government revenue-raising capacity from abolishing the 30/20 rule forthwith.

On the other hand, the differences between regulated housing interest rates and the free market housing interest rate is at its highest for many years. This suggests that if government decided to deregulate housing loan interest it will not be able to proceed, for political reasons, until there are significant falls in market interest rates.

The recommendation to eliminate double taxation through the integration of company and personal income taxation is not so much dependent on a reform of the financial market as it is on the long overdue reform of the taxation system. Under the Report’s recommendations, tax would be collected from companies at the corporate tax rate and credited against the tax liability of shareholders whose taxable income would include their share of the pre-tax income of the company. Not only would this be fairer than the present system but it would remove the tax bias favouring profit retention and also the bias towards debt rather than equity financing. The time for such a change is now.
SALARY INCREASES FOR MP’s,
SENIOR PUBLIC SERVANTS AND
JUDGES

In line with the I.P.A.’s policy of issuing statements to the media on matters considered to be of critical economic importance, a media release on salary increases for M.P.’s, senior public servants and judges was made on April 1st.

The statement attracted the attention of several newspapers and a leading article in “The Australian”.

The full text of the statement is published below.

The Prime Minister and his Ministerial colleagues now have a heaven-sent opportunity to enhance their credibility and respect among the people and at the same time strike a powerful blow at inflation.

They can do this simply be rejecting any salary increases in 1982/3 that may be recommended by the Remuneration Tribunal and seeing to it that senior public servants and judges are subjected to similar restraint.

Reported submissions for salary increases made by members of the Federal Parliament, senior public servants and judges to the Remuneration Tribunal show an incredible insensitivity toward the public mood and the needs of the economy.

With the economy revealing cracks at every point and with inflation threatening to accelerate, the supreme need at the moment is for leadership and example from the top. Instead of that we are getting what will look to many people like a self-centred grab for more money.

There are several good, indeed overwhelming, reasons why there should be no further salary increases during the coming financial year.

One is that MPs., judges and top bureaucrats will already receive, on July 1, the second 10 percent instalment of the average 20 percent rise recommended by the Remuneration Tribunal last year. One does not
need much imagination to realise that a substantial addition over and above the 10 percent would be greeted by an outburst of public anger which would rock the walls of the national capital.

Another, and what should be a decisive, reason was given by the Prime Minister himself in his State of the Nation Speech on the 9th March, 1982. The P M. stated “...further wage increases at this time are beyond the capacity of the economy...”

And the third, and most powerful, reason is that a substantial salary rise now for national leaders would destroy any possibility of averting the wages explosion and the consequent runaway inflation which threatens the economy.

There is no question that politicians and bureaucrats, like the rest of us, should be fairly rewarded, although nothing will more surely ensure that inflation is kept running along briskly than the present-day deeply ingrained notion that, no matter what the state of the economy, everyone is entitled, at the very least, to have their real income maintained intact.

But the price of leadership is high and those who bear its mantle must at times be prepared to sacrifice their personal interests for the national good. The present is such a time.

A salary rise at this juncture would bring the leadership into contempt and would seriously damage the credibility — already not that high — of government as such.

What is now needed, above all else, is that government leaders should set an example for the nation to follow. The reported arguments advanced for the pay increases have to do, among other things, with “relativities” and status.

In comparing relativities one must take into account not just the salary level but all the benefits, monetary and otherwise, that accompany it, including especially superannuation. Ministers, senior public servants and officials in government instrumentalities now benefit from superannuation provisions which far exceed those enjoyed by most of the rest of the community, and which have to be financed out of the pockets of the taxpayer. There is already a widespread public demand that these benefits should be reviewed, especially in regard to the future burdens they would place on government finances.
The concern of some senior members of the Parliament, departmental heads and judges with status exhibits a deplorable misunderstanding of what true status is all about. True status is the respect which one enjoys among one’s colleagues and the people generally and is not measured by whether one’s salary is $5,000 or $10,000 a year higher than someone on a lower level.

If the servants of government are concerned about their dignity, they can enhance it enormously by doing what the overwhelming majority of people would believe, at the present time, to be right and by setting a standard of conduct for the rest of the community to emulate.

The prestige of those in government would soar sky-high if Cabinet firmly rejects any new recommended increase in remuneration for a 12-month period.

If it does not, the prospects of containing inflation will vanish.
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AN ADDRESS TO GRADUANDS

Professor Donald Cochrane, C.B.E., who recently retired as Dean of the Faculty of Economics and Politics at Monash University, has kindly given us permission to publish an address which he delivered at a graduation ceremony on March 26th this year.

Professor Cochrane, a distinguished economist, has not only made a major contribution to the development of Monash University, but as Chairman of the State Bank (Victoria) since 1974 and a member and Chairman of numerous government boards and committees, both State and Federal, has participated notably in the public life of his country.

At the graduation ceremony, Professor Cochrane himself received an honorary degree of Doctor of Economics — the first degree of its kind to be bestowed by the University.

We believe his address is worth the attention of all thinking Australians.

It is with deep feelings of humility and pleasure that I stand here for the purpose of saying a few words to today’s graduands.

Let me first compliment them. The graduands have now completed a variety of degrees, and this occasion is the climax to their years of work at Monash. It is certainly a time for congratulations and, on behalf of everyone present, let me offer them those congratulations.

Having said that, let me remind them that this is not the end of the learning process. In many ways it is only the start. The University cannot provide solutions to all the problems of economics and politics. It can only provide a basis upon which can be developed logical modes of thinking and, I hope, clear communication. Graduands should remember their University’s motto “ancora imparo” — I am still learning.

In thinking about what I should say to you today I wondered whether I should reflect upon my past experiences at Monash or talk about something more topical. Listening to the meanderings of a retired academic regarding the past is not the most rewarding of experiences, so I have decided to make some observations about current economic conditions.

For some years now Australians have been obsessed with the aim of obtaining higher money wages. While I can sympathise with people trying to achieve legitimate catch-up adjustments and seeking justifiable increases in real wages, when it becomes a popular sport to ask for outrageous money wage increases regardless of the inflationary consequences, then I believe it is time to pause and take stock of this obsession. Indeed, I can’t help but be reminded of the activities of those who believe in the “cargo cult” in less developed countries.
Australians are inclined to laugh at those beliefs, but it would seem that the “cargo cult” mentality has been absorbed quite extensively into our own society.

Too many people believe they are entitled to receive, “as of right”, large increases in money wages, substantial welfare handouts and, at the same time, have their taxation reduced. The application of this thinking, encouraged by trade unions and many politicians, has produced both inflation and unemployment. Who can believe that the increase of around 25% in hourly wages obtained by the metal trade workers last December was in any way reasonable? I can only presume that in reaching this agreement, “cargo cult” thinking is not limited to workers but has spread to many employers, the latter assuming that through price increase, tariff protection and exchange rate devaluation their problems will be resolved. In other words, a benevolent government can always come to our aid!

But what has the substantial money wage increase over recent years achieved? Since 1973, eight years ago, the average rate of increase of Average Weekly Earnings has been 13½% a year. In the earlier years the annual rates of increase were higher than average, while in the middle years they were lower than average, but we are now rapidly heading up into rates of increase that are above average. At the same time the average rate of increase of the Consumer Price Index has been 11½% a year. As might have been expected despite the large money wage increases, workers have not achieved on average more than 2% a year increase in real income. There has, of course, been some redistribution effect but there is no time to analyse it here, nor to make very minor corrections to the real income increase for direct taxation and welfare effects.

The outcome of high wage and high price increases has led to an inevitable rise in the rate of interest. Let me pause and make a few comments regarding the confusion surrounding this topic in relation to housing. Although the nominal rates of interest for housing appear high they are not high in real terms. Let us go back to the year 1961, when Monash opened its doors to its first students. In that year bank interest rate for housing was 6¼%, while the C.P.I. rose by less than 1%, a real rate of interest of over 5%. During the 1960’s the real rate of interest for housing mainly varied between 4% and 5%. Today the nominal rate of interest for bank housing lending is 12½% — about to rise to 13½%. The C.P.I. is over 11%, so that the real rate of bank lending for housing is 1½% at present, rising to 2½% at the new rate. Building society rates of interest are around 4% real.

Why then all the fuss? Partly this is due to “cargo cult” mentality and partly because people are mesmerised by nominal rates and ignore the fact that the impact in real terms is not as great as it has been in the past. It might be added that the control of bank housing interest rates over the past 8 years has meant that interest rates have lagged behind price rises and, as a result, real bank housing
rates have been negative. This has been very nice for the borrowers, but not sustainable for the lending banks.

However, the effect of high interest rates and high rates of wage increase does require some understanding. At current interest rates the weekly contribution required to finance a maximum bank loan on a house 3½ times a person’s income is some 35% of weekly income before tax. If we use the conservative rate of wage increase of 10%, this percentage will drop to 26% in three years and to 20% in six years. Thus, the high rates of wage increase and high interest rates create an initial liquidity problem for single income first home buyers with minimum equity, but the problem rapidly disappears with time.

I do not want to forecast how much higher bank housing interest rates are likely to rise, but I can say that they will not fall until the rate of increase of wages falls.

With price increases lagging wage increases, not only has there been small real wage increases, but there has also been a disastrous effect on the level of unemployment. Under our present economic and political conditions it would appear that full employment and high rates of wage increase are not compatible. This is particularly galling for economists of my generation who were brought up to pursue the goal of full employment and, indeed, who believe it is still the right goal to pursue, provided it is feasible to achieve without excessive inflation.

But I am not going to ask today's graduands to solve this problem. Some of the best minds in a number of countries have tried to find a solution, so far with a singular lack of success.

It is not difficult to provide a general prescription. It might simply be stated that our rate of wage increase has to be reduced, and this could be done by co-operation and communication between unions, employers and government. But how to achieve a sincerity and commonness of purpose that will achieve this co-operation has proved elusive to our economic policy makers and politicians. No-one has so far been able to find a formula agreeable to all parties. I should add that I am aware there are factors other than wages contributing to our inflation, but the rate of wage increase is by far the most important factor.

Having briefly posed our basic economic dilemma and the present lack of solution, is there any way in which the graduands can make a contribution? I believe there is.

I don’t expect them to change the attitudes of workers and trade union leaders overnight, but if increased economic efficiency can be achieved some of the impact of high wage increases can be absorbed and not passed on in the form of higher prices and higher unemployment. The term economic efficiency is used in a variety of senses. I am using it here in its widest sense; it covers both improved efficiency in the economy as a whole and in its component
parts, viz. individual organisations.

In the case of the economy as a whole, improved economic efficiency can be achieved through tariff reorganisation, taxation re-structuring and by the removal of unnecessary government intervention in the market place. The re-imposition of price controls would be a retrogressive step. Of course, not all government intervention is unnecessary. For example, Restrictive Trade Practices legislation is an intervention designed to improve market conditions.

In the case of individual organisations, a large number of measures can be taken to improve productivity and reduce costs of production. Today's graduands have obtained or are in the process of obtaining positions in a wide range of economic activities encompassing the public service, private enterprise and teaching. In all these areas contributions can be made towards improving economic efficiency. I should add that Universities are not exempt from this process.

Improved efficiency may sometimes, but not always, mean using more capital intensive methods of production. Contrary to some views, this will not necessarily lead to more unemployment in the longer run. To the extent that efficiency is raised, by whatever means, the rate of growth of the economy will be increased. In these circumstances the level of economic activity and employment will expand. Without growth it is not possible to remedy our many deficiencies such as environmental factors, redistribution of income to the really disadvantaged and, at the same time, make any impact on the level of unemployment.

Finally, I should like to thank the University for bestowing the degree of Doctor of Economics on me. I regard it as a great honour. Further, I regard myself as fortunate in having been able to make a contribution to Monash's development since its foundation. Let me close by saying that I have always encouraged research in the Faculty of Economics and Politics. Universities not only have a duty to teach, but they have the prime responsibility to undertake research. It was, therefore, highly gratifying to see that the Centre of Policy Studies, set up by the Faculty, was named as a Centre of Excellence. Indeed, the only social science centre so named. My congratulations go to the Director and staff of the Centre.
FREEDOM AND GREED
by Sir James Darling

Sir James Darling, former Chairman of the Australian Broadcasting Commission, has kindly written this article for “Review” at our request. Sir James’ contributions to Australian education and to public affairs generally have been manifold. He was Headmaster of Geelong Grammar School from 1930-61 and was a member of university and other bodies concerned with educational advancement. Among numerous positions he served on the Commonwealth Immigration Advisory Council from 1962 to 1968 and on the Australian Broadcasting Control Board from 1955 to 1961. In 1978 he published an autobiography, “Richly Rewarding”. Sir James is now living in retirement in Melbourne after a career of exceptional distinction.

Only a year ago we were all optimists. There was a boom coming: the stock exchange was rising; everyone was going to be richer and to be able to spend more, except of course the pensioners, the poor and the unemployed. Now we are pessimists. All over the world and particularly in the western capitalist part of it, the bubble has burst and the future is clouded. But in critical times neither pessimism nor optimism makes much sense. It is better to try to understand what was wrong with both the boom and the bust and to see whether there is anything that can be done about it.

The Free Enterprise system, under which we allegedly live, is based on the theory that if everything is left to the forces of the market place, the economy will straighten itself out and all will be well. This was supposed to be the reason for the expansion of wealth in the XIXth century. Maybe! but it conveniently forgets a whole lot of facts, chronic unemployment even in rich countries, the exploitation of poor countries, the disgraceful poverty which so outraged Marx and Engels in England and the many other sins which were committed in its name. It forgets that there were still cyclical depressions, bank failures and industrial collapses with all the human tragedies that these entailed.

Merchants, owners of factories and those who received royalties may have become richer and richer: the standard of living over-all may have risen considerably: but it was at the expense of intolerable injustices. In the name of Free Enterprise the bosses and Parliament opposed the
Factory Acts and anti-slavery legislation; young children worked intolerably long hours in shocking conditions: women were harnessed to trucks to pull them in ways that would now be prohibited for animals: Ireland starved because the English bureaucrats argued that to give the peasants help would interfere with the free working of the Law of Supply and Demand. Oh Theory! what sins are committed in your name.

In retrospect we find it almost impossible to understand the closed and callous minds of our ancestors. Is it possible that our descendants will look back on us with the same shocked surprise? Are there injustices and failures in our own society which a civilized, not to say a Christian, society should not tolerate? Must we admit that the grosser inequalities which we know still to exist in the world and even in our own country are inherent in the system under which we live?

Certainly there has been no time in known history when they have not existed. For many thousands of years economic viability depended upon slavery. For hundreds of years since slavery was abolished in Europe, the situation of the lower grades of the community was not much better. The agrarian and industrial revolutions raised the general standard of living but in some ways they intensified the inequalities. Utopias have remained dreams and the last attempt to achieve one on the model of the vision of Marx has proved in many ways worse than what it replaced. At the best a certain drab equality may have been achieved but only at the cost of liberty; and life without liberty is a return to the slavery with which it all started.

The XVIth century philosopher, Thomas Hobbes, would not have been surprised. He would have argued that the hopes of those who believed in the beneficent working of the Free Enterprise system were illusory because they were based upon an absurdly optimistic view of human nature. “It is the nature of man”, he wrote “to be activated by the desire for gain, safety and glory”; which, put more bluntly, means that man is influenced by greed, fear and vanity more than by love of his fellow-man or a feeling of responsibility for him. There are few who would with confidence gainsay him.

There is however a contrary impulse, whether innate or implanted by religion, which makes us long for perfection. This induces the historical conflict between the optimist and the pessimist, the idealist and the realist. Amongst some of us there is always a discontent with what is and a desire for what should be. In the history of our western civilization this
has shown itself in the intermittent search for a society which would manifest both Freedom and Equality. For many hundreds of years our world accepted a fairly static condition based upon essential inequalities of power and wealth. Reward in Heaven was to be the compensation for injustice upon earth. The Protestant Reformation, besides splitting Christendom and to some extent, though unintentionally, diminishing the certainty of eventual heavenly compensation, sowed the seeds of the concept of equality. It emphasized the central idea of man’s equal importance in the eyes of God and at the same time his right and duty to think for himself. It also by the back door produced the idea of the Protestant Ethic, the moral virtue of work and by implication the right to gain personal reward in proportion to effort. Later the XVIIIth century philosophers questioned existing authority on the dual grounds of its inefficiency and its corruption. They taught the rulers to be conscious of the injustices of the existing system.

The French bourgeoisie, and its counterpart in other countries, resented their exclusion from power and sought equality, but they drew back in horror when their respectable revolution was usurped by the masses and ended in the Terror. They realized that too much talk about equal rights was a theory of equality which embraced more than themselves. Reaction followed: in France, Napoleon; in England, a long period of Tory domination, only partially corrected by the First Reform Bill. But the ideas released by the French Revolution were not dead, and the XIXth century saw the enfranchisement of the masses, and the late XXth century the welfare state.

The belief of the Liberal idealists, the Christian socialists and the Fabians was that once the economic injustices had been removed and a better distribution of wealth secured, the Golden Age would be assured. When this didn’t work out, they fell back on education as the magic key. Free, compulsory and enlightened education was the answer. It has been a grievous disappointment to those of us who pinned our faith on that, that it doesn’t seem to have worked out either. Free compulsory and reasonably fair educational opportunities have come. They have given a better chance for those with brains, whatever their background or economic position, to lift themselves to positions in which they can compete on equal terms in the more profitable professions and in business. This is a good thing and makes the world a bit fairer; it does not seem to have got very far in the essential purpose of the exercise, the producing of an enlightened, egalitarian and free democracy.

The distressing conclusion is that Freedom and Equality are
incompatible ideals. Some Communist states may have achieved a rather spurious equality but at a grievous cost to freedom. The Western world, ourselves included, has essentially a free system, jealously guarded, but the corresponding ideal of equality has eluded us. There is much that is good in Australia, but for a country so richly endowed with almost all that man can need, there is much that is wrong and disgraceful. The rich countries still get richer and the poor ones poorer. Even in the most affluent societies there remain poverty, unemployment and disadvantage.

With these there come their necessary concomitants, greed, envy, anger and division. We are told that the main enemy is inflation, and that the remedy for this lies in the control of the supply of money. Maybe! but that doesn't explain why some of us should be so prosperous and others so disadvantaged. There must also be something wrong with the distribution. Most obviously there is the preposterously high price of money for borrowers. Historically high interest rates have always been the precursors of disaster. On the one hand we see the power of those who can command credit, the growth of immense corporations, the mergers or taking over of one company after another by apparently unscrupulous giants who appear to be able to make millions for themselves by mere manipulation of money or credit. On the other hand we see the bankruptcy of small businesses, stagnant unemployment, the lowering standards of those on fixed incomes and the reduction of social benefits. It is not surprising that the credibility of the system is questioned.

Nor is the reaction to this state of affairs any more encouraging. The Trade Union movement, or at least the stronger and more militant unions, appear more concerned with seeking more for their own members than with the general good and the lessening of unemployment. But the lack of a sense of social responsibility shows itself in its ugliest form in Tax Evasion amongst the rich, and indeed amongst others — it is astonishing how many people ask to be paid in cash or an open cheque — and on the other hand in shoplifting, mugging, armed burglary, vandalism and terrorism. All these are evidence of a selfish determination of individuals to put their own interest unequivocally before the common good. Truly we live in a selfish world and our most widely accepted principle is "If you don't look after yourself, no one else will!" Faced with tax evasion, large-scale financial rackets and in some cases monstrous profits, the worker can hardly be blamed for fighting his own battle, and vice versa.

Short of a dramatic change of heart there seems little that can be done
about it. If the crisis got worse or if the country could be seen to be in danger such a change might occur. If not, it is not beyond possibility that we may drift as others have done into a dictatorship either of the Left or of the Right, that is, having failed to be worthy of Freedom we shall lose it. For Freedom without responsibility means chaos, and chaos is unacceptable.

In the meanwhile what? There must be an attempt to make checks and balances work on both sides. “Overmighty” subjects, the rogue elephants of finance and the irresponsible unions must accept some controls and governments must learn to be seen as representing the whole people rather than half of it. The rest of us must patiently try not to be caught up in the general greed.

The famous speech attributed to Pericles is always supposed to embody the ideals of a perfect democracy. It is worth repeating. “We have a form of government” he said…..“which, because in the administration it hath respect not to the few, but to the multitude, is called a democracy. Wherein there is not only an equality amongst all men in point of law for their private controversies, but in election to public offices we consider neither class nor rank, but each man is preferred accordingly to his virtue or to the esteem in which he is held for some special excellence…..Moreover this liberty which we enjoy in the administration of the state, we use also in our daily course of life…..so that, conversing among ourselves without private offence, we stand chiefly in fear to transgress against the public and are obedient…..to the laws, and principally to such laws as are written for protection against injury and those which, being unwritten, bring undeniable shame to the transgressors.”

Freedom cannot live long with greed, nor democracy without responsibility.
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