COUNCIL OF THE INSTITUTE

J. S. BALDERSTONE, (President)
SIR WILFRED BROOKES, C.B.E., D.S.O. (Past President)
J. A. LECKEY, (Chairman-Executive & Editorial Committee)
D. M. HOCKING, (Chairman-Editorial Sub-Committee)
HUGH M. MORGAN, (Treasurer)
SIR LAURENCE BRODIE-HALL C.M.G.
PETER R. BUNNING
SIR PETER DERHAM
D. L. ELSUM
SIR FRANK ESPIE, O.B.E.
A. GIBSON
C. B. GOODE
SIR ANDREW GRIMWADE, C.B.E.
J. A. HANCOCK, O.B.E.
SIR JOHN HOLLAND
DENYS I. McCULLOUGH
SIR JAMES McNEILL, C.B.E.
W. D. McPEHERSON
J. L. NAVE
G. M. NIALL
HILTON J. NICHOLAS, O.B.E.
SIR IAN POTTER
NORMAN N. ROBERTSON, C.B.E.
NORMAN SAVAGE
R. A. SIMPSON
J. H. VALDER
HON. VERNON WILCOX, C.B.E., Q.C.

EXECUTIVE AND EDITORIAL COMMITTEE

J. S. BALDERSTONE, (President)
J. A. LECKEY, B. COM. (Chairman)
D. M. HOCKING, M.A., LLB. (Chairman-Editorial Sub-Committee)
HUGH M. MORGAN, LLB., B. COM., (Treasurer)
PETER R. BUNNING
SIR FRANK ESPIE, O.B.E., B.E.
DENYS I. McCULLOUGH, B.E. (Aero)
NORMAN N. ROBERTSON, C.B.E.
HON. VERNON WILCOX, C.B.E., Q.C.
C. R. KEMP, B. COM. (Director)
C. D. KEMP, C.B.E., B. COM. (Consultant)
J. ABRAHAMI, M.A. (Consultant)
T. C. WILSON, A.A.S.A. (Snr) A.C.I.S. (Administrator)

LIFE MEMBERS OF I.P.A.

W. A. INCE, C.M.G.
E. A. JONES, C.M.G.

OBJECTS

The Institute of Public Affairs is a non-profit, educational organisation financed by business enterprises and people throughout Australia to study economic and industrial problems. It was launched in 1943. The basic aim of the I.P.A. is to advance the cause of free business enterprise in Australia. In pursuit of this aim it is endeavouring:

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.
Editorial —

A QUESTION OF MATESHIP

If the Australian tradition of mateship means anything, union leaders will have to start facing up to economic realities.

The relentless pursuit of higher incomes will only drive more and more Australians into the ranks of the unemployed.

In the current economic climate there is really no scope for wage increases.

The needs of the unemployed and the longer term growth prospects of the Australian economy, rather than wage increases, should be the key priorities of responsible unionism.

Further substantial increases in money incomes and improvements in conditions will seriously damage Australian industry and have adverse effects, in the longer term, on the living standards of Australian families.

As a consequence of the world recession Australia is facing huge losses in national income.

And if the catastrophic impact on the Australian economy of the world slump were not enough, we have now been hit with one of the most devastating droughts in our history.

There is no way that the losses arising from the recession and the drought can be escaped.

The value of farm income in the current year may be almost halved and many farmers will be forced to leave the land.
For country shop-keepers and the suppliers and manufacturers of farm equipment and materials, who depend on the expenditure of the primary producer, tough times indeed are ahead.

Because of the world slump and the collapse of metal prices, our other main export industry — mining — is in a similar situation.

Some of the great mining companies are now incurring huge losses instead of spectacular gains.

Projected developments have been deferred and employment in the industry is being cut.

This will have grave repercussions on manufacturers who are already in difficulties because of a decline in competitiveness.

It has been estimated that in the metal trades industries alone there will be 50,000 retrenchments in the year ending December 1982.

With GNP destined to fall in 1982/83 it is the height of unrealism to expect that overall living standards can be maintained, let alone improved.

Indeed, the immediate issue is how the unavoidable losses can be equitably shared.

The notion that real wages can be maintained, that the wage slice of the shrinking national cake can be preserved, at the same time as hours are being reduced, will have two main consequences.

The first is that more and more Australians will be forced into unemployment. In graphic language the usually sober Budget Papers rightly point out that many Australians have already been “beggared into unemployment by the ‘successful’ wage increases of their neighbours”.

Second, the recession will be deeper and more prolonged than need be the case.

An article in this “Review” draws attention to the serious decline in profitability of the private sector. It seems that we have to re-learn the simple economic truth that profits and jobs go hand in hand.
Australians must face up squarely to the facts of life: and the facts, at the moment, are not pleasant.

Other industrialized countries are responding to the realities; wage gains are far below Australian levels.

In contrast to the 17 percent increase in average earnings recorded in Australia over the last year, comparable figures in the U.S., Japan, U.K., Germany and Sweden are well below 10 percent.

In France, unions have been told by the Socialist Government that future cuts in working time will have to involve cuts in pay.

Action to bring about significant changes in normal hours and overtime working was seen by a recent OECD report as being "potentially the most hazardous threat to economic performance and certainly it was not considered that, in most industries, beneficial employment effects would result from such action."

In Germany and the U.S. there have been agreements with major unions that involve substantial real cuts in income over the next twelve months.

These agreements recognise that employers in the current recession do not have the capacity to pay large increases.

They also recognise that jobs, not wage increases, are the real priority of the workforce.

During the 1950s and 1960s Australians came to accept, as a right, yearly improvements in their living standards. This attitude of mind still persists.

In those days, when everything was running in our favour, the economy could generally support demands for higher real wages.

But times have changed.

The economy can no longer sustain such increases. Australians, it has to be said, have no God-given right to a certain standard of living any more than the peoples of any other country.
Standards of living must be earned and higher standards can generally be earned only by improved productivity.

The Government with its ‘family’ Budget, industry assistance and rural assistance schemes is probably doing as much as it can within the bounds of fiscal and monetary responsibility.

The Prime Minister is now entirely justified in expecting a positive and helpful response from the unions.

There is also an inescapable responsibility on the white collar sector, from politicians, public servants, teachers and university academics to lawyers and doctors, to play their part in national economic recovery by exercising restraint in their salary demands.

But the over-riding responsibility for moderating the effects of the recession and improving job prospects now lies with Mr. Dolan, Mr. Crean and their colleagues.

NEW DIRECTOR

Mr. Rod Kemp has been appointed Director of the Institute of Public Affairs.

Mr. Kemp, 37, has had wide experience as a journalist and research economist, and in government.

For the last 5 years Mr. Kemp has been Senior Private Secretary to Senator Dame Margaret Guilfoyle, the Commonwealth Minister for Finance.

A graduate of Melbourne University, he spent several years as a financial journalist with the Melbourne “Herald”.

Later he was employed as a research economist with EURO FINANCE in Paris. He returned to Australia in 1972 to become Senior Public Relations Officer for Hamersley Iron.
A COMMENT ON THE 1982/83 BUDGET

by the Institute's Senior Consultant, C.D. Kemp C.B.E.

Budgets, rather like school reports, can be ranked somewhere on a scale from "very good" to "very bad", "excellent" though being too much to expect. Very good budgets are as rare as rain in the Simpson Desert. Very bad budgets, however, are not unknown: there were one or two notable examples in the early 1970s. The latest Budget is one of the better budgets: it gets at least a rating of "good". Its main weakness lies in its over-lavish and undiscriminating provision of a wide range of welfare benefits.

The media wolf-pack which every year takes an almost unholy delight in savaging the budget has, of course, done its customary thing. But its criticisms this year have somehow been peculiarly unconvincing. So, incidentally, have those of Opposition spokesmen. This may be taken as an indication that the 1982/83 budget is not so easy to denigrate as has been the case with many in the past.

The main media criticism is that the Budget does little or nothing to reduce unemployment. But here there is a stark divergence of opinion. Some critics say that the projected deficit is too large and, by its impact on interest rates and expectations, will damage employment. Others say precisely the reverse, that the deficit is not large enough and, with the dim prospects confronting the private sector, the budget should have been more expansionary. When the experts are in diametric opposition, what is the ordinary person to think?

The truth is that, in the present economic context, a national budget can have only a limited influence on employment. Unemployment in this country, which unfortunately is destined to get worse before it gets better, is a product of the world recession on the one hand, and of wage and other income rises which have far outstripped productivity gains, and which have cut deeply into business profits on the other. Until the profit prospects before the business sector improve, unemployment will remain high.

The Budget could do nothing about the world slump. Through a wide
range of measures, it has tried to do something to encourage restraint in future wage and salary claims. These measures include the quite substantial reductions in personal income tax (an initiative too long delayed), the home loan interest rebate on mortgages of up to $60,000, and the increase in family allowances of 50 percent for the first and second child. The Treasurer has estimated that, after allowing for the increase in indirect taxes imposed in the Budget, the average family will benefit by nearly $17 a week. Some on higher incomes carrying large housing loans will benefit much more.

As a result of these changes, the Government's pleas for wage moderation are entitled to a realistic response from the trade unions. Let there be no mistake: the key to any improvement in employment prospects, both now and when world economic recovery eventuates, lies not in the area of fiscal policy but in wage and general incomes moderation and the restoration of profitability. Indeed, it could be said that if there is ever to be a return to anything approaching those halcyon days of full employment of the 1950s and 1960s, we will have to get back to the common sense view which then prevailed that increases in incomes should be closely related to "capacity to pay", a view which has been totally in the discard over the last decade.

The responsibility for the present serious level of unemployment and for the improvement of future employment prospects rests not so much on the shoulders of government as on those of the trade unions. Not that government can be entirely exonerated. In the early 1970s encouragement was in fact given by government to totally irresponsible wage and salary increases. And, in more recent times, by lack of example in their own field of public sector and parliamentary remuneration, by failure to reconstruct the tax system to provide relief in personal income tax, and, latterly, by the encouragement given to collective bargaining procedures, government has fallen a long way short of making a full contribution to wage and other incomes restraint.

Effective economic management in the 1970s has been inhibited by the disregard paid to the essential wage—productivity—profit equation. This is the heart of the matter. Through the Budget, the Government has done something to improve this situation by swinging the tax burden more onto indirect taxes and reducing income tax and by its welfare provisions, thus providing a basis for income restraint. Prior to the Budget, it also took important and necessary steps to promote business investment by the introduction of accelerated capital write-offs and, for
the first time, of depreciation allowances for commercial buildings. For all this, the Government is to be strongly commended, although, in view of the urgent need to bring a little cheer to business the Budget might well have provided for some reduction in company tax. However, in light of the huge increase in wages of over 17 percent in the 12 months since the virtual abandonment of Australia's traditional centralised system of wage determination, it is, to say the least, surprising, indeed disturbing, to read in the Budget Speech of the Government's intention to continue on its present course. "A more market responsive system of wage determination could also help produce wage outcomes closer to the capacity of individual firms, and hence the economy, to bear. Notwithstanding the initial steps we remain well short of such a system and the Government will be seeking to achieve further progress in this direction in 1982/83".

Given the deep-rooted egalitarianism in the Australian make-up and the traditional commitment to the concept of comparative wage justice, one might ask how it is intended to prevent so-called market-determined wages in pace-setter industries from flowing on through the economy as a whole. The metal trades agreement in late 1981 which increased, in one fell swoop, hourly wage costs by something like 25 percent, and which was successful in putting many firms out of business, presents an ominous warning against persisting in the movement towards decentralised wage-fixing. Statement No. 2 of the explanatory papers attached to the Budget argues that the unfortunate effects of this agreement merely demonstrate that what is needed are wage agreements on a firm-by-firm rather than an industry basis. This would clearly need what would amount to a revolutionary change in attitudes by employees and employers and on the part of the community generally, as well as in the structure of trade union and employer organizations through which collective bargaining is conducted.

The market-determined wages concept seems a highly theoretical notion in the existing Australian economic and industrial environment. It is, at the very best, a long-range objective when what is needed at the moment is immediate action to bring wage increases more into line with total national productivity. It might also be asked how remuneration in the not inconsiderable non-market public sector is to faithfully reflect market forces.

That incomes restraint is at the heart of the Australian economic dilemma is clearly the view of the Commonwealth Treasury. In the papers attached to the Budget, there appears the Treasury's customary
“encyclical”, the all-important “Statement No. 2”. The Statement leaves no doubt about the crucial importance which the Treasury attaches to the relationship between wage increases, profitability and the level of employment.

“Sharp increases in wages and other labour costs played a major role in the downturn in activity in 1981/82”.

“The continued rapid growth in domestic labour costs was bound to produce some falling off in economic activity sooner or later. But coming as it did at a time when inflation overseas was slowing, it sharply reduced the competitiveness of Australian industry against imports and in export markets”.

“Squeezed between a sharp rise in labour costs and constraints upon their ability to raise prices, firms’ profits fell sharply and they were increasingly forced to cut production, economise on inventories, close marginal plant and prune their labour forces”.

“.....wage developments are crucial to the overall economic outlook.”

Right at the end of the lengthy Statement No. 2 the Treasury in an interesting analogy and in a picturesque use of words re-emphasises the supreme importance it attaches to wage moderation.

“In the field of international trade, it has long been accepted by most that beggar-thy-neighbour practices benefit no country — they simply reduce the size of the cake to be shared. A greater recognition that the same holds within individual economies would do much to benefit those Australians who, over the past year or so, have been beggared into unemployment by the ‘successful’ wage increases of their neighbours; it would also enhance the longer term prospect for an improvement in the standard of living of all Australians”.

Incomes, it should be repeated, are the crux of our economic situation. So much so, that the effectiveness of the Budget will be measured by its success (or lack of it) in reducing the insistent pressure for higher wages and consequently other incomes (with the exception of the emaciated profit share). With this in mind, it has to be said that the Government missed a golden opportunity of applying the brake when it accepted the Remuneration Tribunal’s recommendation for a 7 percent increase in
Parliamentary and Public Service salaries. The recommendation meant that these salaries have been boosted by more than 27 percent in the last year. A decision by the Government to impose a 12 months “freeze” would have set an example of restraint that would have been acclaimed throughout the nation; such a step would have contributed more to the strengthening of the economy than anything which has been, or could be, done through the Budget itself. In deciding, a week or so before the Budget, for a 12 months standstill on executive salaries, several of Australia’s most important companies demonstrated what is needed in the context of the present threatening economic situation. These companies set an example which should have been followed by the Government. If it had been, the task of the Government in achieving incomes restraint would have been rendered that much easier.

As a result of the Budget, the bill for social welfare in 1982/83 will amount to a staggering $13,272 million, an increase of $1,774 million or 15.4 percent over the previous year. This figure does not include such items as the dependent spouse rebate for single income families, the pensioner rebate and the home loan interest rebate, measures which will cost the government well over $200 million in a full year. The Government would justify the welfare measures on the grounds that they are not only essential to cushion the impact of the recession on the needy, but are necessary to the all-important goal of incomes restraint. Nevertheless, some of the provisions, appear over-generous. This applies particularly to the family allowances which will cost an additional $375 million in a full year. Tens of thousands of middle and high income families who by no stretch of imagination are in need of assistance, will benefit from this provision.

The housing interest rebates are even more non-discriminatory. Those with high incomes, expensive houses and large mortgages will benefit the most.

At a time of economic stringency it could be argued that welfare improvements, not based on need, should be curtailed. The Government would no doubt reply that the measures incorporated in the Budget are part of the necessary strategy to achieve wage and salary restraint.

Nevertheless, by the wide and generous range and largely undiscriminating character of the benefits provided, the Government has locked itself into a commitment which will limit its scope for manoeuvre in the years ahead. Once conceded, the benefits, for political reasons, are not easy to reduce, let alone abolish.
Perhaps the most alarming aspect of the 1982/83 Budget is that total Commonwealth outlays, as a proportion of GDP, have risen to 28.7 percent, the highest figure since 1977/78. The high hopes, held only a few years ago, that we were about to enter an era of “smaller government” have not been realised and this Budget does nothing to make one think they ever will be. The Government which was elected on a platform of “small government” should show more determination to achieve one of its key objectives. On Budget night, it was disappointing to hear the Treasurer, Mr. Howard, say, in effect, that given today’s community attitudes and expectations, a government was doing very well if it could prevent the growth of public expenditure (as a proportion of GDP) let alone reduce it.

The Treasurer has been justified in claiming that the 1982/83 Budget has been the most difficult to frame since the present Government came to office. It has necessarily been a budget designed to cope with the cold winds of what, without exaggeration, can be called an economic crisis. The Budget projections paint a gloomy outlook for the economy and one which calls for responsible response and action by every section of the Australian community. To persist in the endeavour to achieve higher living standards in face of an almost certain fall in the gross national product would be to turn our backs on the harsh realities of our situation and would merely serve to compound our difficulties.

On balance, the Government has produced a good budget, and one which, more than most, has clearly been influenced by the views of different sections of the Australian community. The rest lies with us. Our response over the next 12 months will determine how rapidly we emerge from the economic trough (partly of our own making) in which we now find ourselves.
"THE HIGH COST OF "MEDIBANK PRIVATE"

This is the third in a series of articles on government participation in the financial market. In the first article (Review April/June 1981) we examined the government-owned insurance companies. We concluded that while State Governments cannot easily divest themselves of their insurance companies, they should take steps to provide that they compete on an equal basis with the private institutions and invest their funds in accordance with normal business criteria. A similar conclusion emerged from an examination of government banks (Review June/Sept 1981).

It is scarcely surprising to find a similar picture emerging from an analysis of government provision of health insurance.

The Campbell Committee of Inquiry into the Australian Financial System devoted six of the forty chapters of its final report to an analysis of government-owned financial institutions. The Committee had much to say in these chapters about government-owned banks and insurance companies. It had, however, nothing to say about the highly controversial role of the Federal Government’s health insurance office — Medibank. This is surprising in view of the Campbell Committee’s stated view that:

"There is most concern when government enterprises are growing faster than private enterprises, and this is believed to be due, at least in part, to special advantages and status attaching to government ownership".

Growing fast Medibank certainly is. A mere ten months after Medibank Private was established in June 1977 it had an estimated 931,000 persons covered by medical insurance and 1,450,000 by hospital insurance. By the end of October 1981 these figures had grown to an estimated 1,570,000 and 2,450,000 respectively. Medibank Private now has 16.6 percent of the Australian population with medical insurance and 17.9 with hospital. On the other hand the privately operated funds have seen their market share decline from about 74 percent at June 1973 to about 50 percent at the present time. From non-participation in the market to 17 percent of the market in less than 5 years — against established organisations, some of whom have been around for over 100 years — can only be described as a phenomenal growth rate.
How has Medibank achieved this phenomenal growth? Is it offering something better than the private health insurers? Or, has Medibank enjoyed "special advantages and status attaching to government ownership?"

When the Labor Government came to power in 1972 one of its main commitments was the introduction of a single universal health insurance scheme to cover all Australians. In August 1974 legislation was passed establishing the Health Insurance Commission which was to administer the Medibank program, with a commencing date of July 1, 1975.

Essentially the Medibank program aimed at a single government-operated fund, financed from Consolidated Revenue, providing medical benefits at 85 percent scheduled fees (with a maximum patient payment of $5) with standard ward hospital accommodation and treatment available to all free of charge.

Private health insurance funds continued to be allowed to offer insurance for those wanting a doctor of their choice, in private or semi-private hospital accommodation, for the medical "gap" of 15 percent of the scheduled fee and for ancillary services such as dental, optical and physiotherapy.

In November 1975 there was a change of Government and in October 1976, significant changes were made to the Labor Government's Medibank scheme. The most important was the new Government's decision that the Health Insurance Commission should offer insurance on the same basis as, and in direct competition with, the privately operated funds. The insurer became known as Medibank Private.

Medibank Private started life with a number of significant advantages over its privately owned competitors, and it retains some of these advantages to the present day.

In the first instance, Medibank Private enjoyed the benefits of "inertia selling". When Medibank Private opened its doors in October 1976, wage and salary earners faced three options. They could stay with Medibank Standard, pay the levy and receive 85 percent (with a maximum of $5) medical cover and standard ward accommodation. Alternatively, they could insure with a private Health Fund and then lodge a Health Insurance Levy Exemption with their employers so that tax deductions would not be increased. With the third alternative, the
wage earner could choose Medibank Standard plus private hospital cover for a doctor of his own choice, paying the 2½ percent levy plus a fund contribution for the hospital cover. The combined effect of an existing contact with Medibank Standard and the more convenient levy arrangement encouraged a large percentage of the market to either transfer wholly to Medibank Private or to take the option of Medibank Standard plus private hospital cover through Medibank Private. Initially some 40 percent of the 6.1 million insurable units stayed with Medibank.

In addition, the fact that Medibank Private was fully government-owned gave its safety status an edge over the privately run insurance health schemes. This must have become increasingly so in the past three years when several private health funds discontinued their operations and amalgamated with other funds. In one instance the members of a health fund were left largely on their own, leaving some people with accounts in four figures. The Government did not assist these people.

By contrast, in November 1978 the Government gave Medibank Private a grant of $21 million “so that Medibank could operate without further assistance from the Government”.

A further advantage enjoyed by Medibank Private was its inheritance, free of charge, of all the facilities needed for a modern insurance company. This included a staff of 3700 in 81 offices with 31 mini-computers, 633 terminals, 10 medium sized computers, hooked by lead line to the central system. The initial cost of the computer system alone was $35 million.

There are other, smaller cost savings available to Medibank Private. For example, until September 1977 it placed advertising material through the Australian Government Advertising Service. This amounted to a saving of about 11 percent on its media bill. These advantages are financed largely by taxpayers, the majority of whom are not members of Medibank Private. With such advantages one would have expected Medibank Private to be able to offer insurance rates substantially below those of the private health funds. As we now know, it has not been able to do so.

The fact that Medibank Private was receiving special treatment and growing faster than other insurers would not be of too great concern if there were some overriding advantage which would not be available to the community in the absence of a government-owned health insurance fund.
The Campbell Committee's conclusion suggests that a government health insurance company would be justified if it filled a market gap by providing on commercial terms an important financial facility which would not otherwise be available and which could not be filled effectively by a private institution. Alternatively, a government insurance company would be justified if it enhanced, through its presence, the competitive environment.

Mr. Hunt, the former Liberal Minister for Health, must have had this in mind when he argued that the Government was supporting Medibank Private because it wanted it to "exert an influence which will keep insurance contributions at the lowest possible level". It has of course done nothing of the sort, and indeed there was never any reason to think that a government-owned business might do anything to keep prices down.

In mid-1978 it did appear that Medibank Private was exerting pressure that might force private insurers to reconsider their premiums. But, as events turned out, Medibank was merely using its privileged position to engage in a stunt that was to substantially increase its membership.

In May 1978 the Melbourne press reported that up to 10,000 Victorians a week were abandoning private health insurance funds in favour of Medibank Private as the government rates were up to $3 a week cheaper for basic family cover. The trigger to this exodus from the private funds, which began in March when rate increases were announced by the private health funds, were large newspaper advertisements placed by Medibank Private emphasizing its lower rates.

The following month, June 1978, Medibank Private announced higher rates, the damage to the private sector then having been done. Five months later, in November, Medibank Private needed an injection of $21 million dollars from the government because it was operating at a loss with no reserve to fall back on.

By no stretch of the imagination can Medibank Private be said to be furnishing a service not provided by one of the 40 private health funds. While the original Medibank set out to ensure that the 10 percent of the Australian population previously without health insurance would be covered, albeit at great cost to the taxpayer, Medibank Private has no such objective. Medibank Private provides nothing that is not available from the private health funds.
Medibank Private clearly fails to meet the minimum requirements set by the Campbell Committee for the justification of a government-owned financial institution.

But this is not the end of the story. Medibank Private fails to meet two other important Campbell criteria; economic viability and operational efficiency.

To maintain the economic viability of the health funds the Federal Government requires the larger funds to hold reserves equal to eight weeks of contribution income. The rationale for such a figure is quite simply that anything greater than eight weeks might be seen by the public to be too great a reserve, or tantamount to the retention of excessive profits (in fact health funds are non-profit making bodies), while anything less than eight weeks could place the particular fund in a potentially insolvent situation if it had to meet unexpectedly high claims.

Reference to Table 1 below show that on an Australian-wide basis, Medibank Private has not achieved this solvency level in any year since its establishment. Indeed the best result achieved over those five years was in the year ended June 1981, when reserves were 3 to 4 weeks of contribution income.

**TABLE 1: MEDIBANK PRIVATE — SUMMARY OF FINANCIAL OPERATIONS**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Contributions</td>
<td>300 576</td>
<td>292 960</td>
<td>258 881</td>
<td>183 196</td>
<td>103 966</td>
</tr>
<tr>
<td>Benefits</td>
<td>(251 207)</td>
<td>(248 972)</td>
<td>(221 079)</td>
<td>(184 651)</td>
<td>(87 251)</td>
</tr>
<tr>
<td>Operating costs</td>
<td>(46 647)</td>
<td>(47 011)</td>
<td>(38 932)</td>
<td>(27 591)</td>
<td>(15 417)</td>
</tr>
<tr>
<td>Investment and other income</td>
<td>7 026</td>
<td>5 347</td>
<td>4 137</td>
<td>8 204</td>
<td>2 539</td>
</tr>
<tr>
<td>Surplus (Deficit)</td>
<td>9 748</td>
<td>2 351</td>
<td>3 007</td>
<td>(20 842)</td>
<td>3 837</td>
</tr>
<tr>
<td>Asset Revaluation</td>
<td>—</td>
<td>592</td>
<td>(2)</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Capital Grant</td>
<td>—</td>
<td>—</td>
<td>21 000</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Total Reserves</td>
<td>19 691</td>
<td>9 943</td>
<td>7 000</td>
<td>(17 005)</td>
<td>3 837</td>
</tr>
<tr>
<td>— expressed as weeks</td>
<td>3.4</td>
<td>1.8</td>
<td>1.4</td>
<td>-4.8</td>
<td>1.9</td>
</tr>
</tbody>
</table>

* Represents only 9 months operations from 1 October 1976 when Medibank Private commenced.

As already noted the $21 million Federal Government grant to
Medibank Private in November 1978 was "so that Medibank could operate without further assistance from the Government". In fact without that grant Medibank would have operated in 1979 and probably in 1980 with negative reserves. To put it kindly, it would have been insolvent.

The year 1978 was also a difficult one for the private health funds. Their payouts of benefits exceeded their income by $164 million. In the absence of government authority to increase contribution rates, the private funds had to absorb their deficits by running down accumulated reserves.

In fact, it is not strictly valid to consider Medibank's financial situation on a national basis. The National Health Act requires that a health fund be registered as a separate entity for each State in which it operates, and treated accordingly. What this means for Medibank Private is that each State Branch must operate within the financial guidelines set down by the Department of Health and establish its individual contribution rates appropriate to the circumstances in that State and its financial reserves.

A health fund cannot revise its contribution rates without first obtaining the approval of the Department of Health. A special Registration Committee exists within the Department for just this purpose. The Committee must satisfy itself that the revised rates being sought by the fund are appropriate in terms of its financial circumstances with particular regard to its reserves. If a fund has reserves in excess of eight weeks, the Registration Committee can, and has, asked that they accept lower contribution rates than those requested. Alternatively, if reserves are low, the Committee can, and has, asked that funds increase their rates to a higher level. Clearly a health fund's rates are critical to its competitive market situation so that the decisions of the committee can be very important to its commercial success.

Table 2 below gives the reserve situation for Medibank Private in each State at June 1981. This shows that Victoria alone is solvent with 8.8 weeks of reserves. At 5 weeks of reserves, Western Australia is barely acceptable, while all other States are insolvent. The situation in New South Wales is particularly alarming where there is a negative solvency of 1.3 weeks. In view of this quite unsatisfactory situation one would expect that in approving Medibank's new contribution rates at 1 September 1981 the authorities should have required that those rates be of a sufficient level to quickly restore its solvency. Such is not the case.
Medibank's contribution rates in all States are highly competitive with those of other Funds which have satisfactory reserves and it is clear that these rates are not sufficient to achieve the required reserves limits. Yet they have been approved by a Government committee whose task it is to ensure that rates are set which will reflect acceptable reserve or solvency requirements. One must ask: has the Government established two different criteria, one for Medibank Private and another for the private funds?

**TABLE 2. MEDIBANK PRIVATE RESERVES BY STATES**

<table>
<thead>
<tr>
<th></th>
<th>NSW</th>
<th>VIC</th>
<th>QLD</th>
<th>SA</th>
<th>WA</th>
<th>TAS</th>
<th>AUS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medical Benefits</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>11 856</td>
</tr>
<tr>
<td>(5000's)</td>
<td>(2 422)</td>
<td>1 1620</td>
<td>1 176</td>
<td>864</td>
<td>525</td>
<td>93</td>
<td>1 1856</td>
</tr>
<tr>
<td>Hospital benefits</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>7 835</td>
</tr>
<tr>
<td>(500)</td>
<td>6 212</td>
<td>1 021</td>
<td>264</td>
<td>800</td>
<td>78</td>
<td>171</td>
<td>7 835</td>
</tr>
<tr>
<td>Total Reserves</td>
<td>(2 962)</td>
<td>17 832</td>
<td>2 197</td>
<td>1 128</td>
<td>1 325</td>
<td>171</td>
<td>19 691</td>
</tr>
<tr>
<td>Contribution income</td>
<td>117 716</td>
<td>105 041</td>
<td>41 573</td>
<td>15 816</td>
<td>13 915</td>
<td>6 515</td>
<td>300 576</td>
</tr>
<tr>
<td>Reserves expressed as weeks</td>
<td>—1.3</td>
<td>8.8</td>
<td>2.7</td>
<td>1.4</td>
<td>5.0</td>
<td>1.4</td>
<td>3.4</td>
</tr>
</tbody>
</table>

The possible existence of double standards is also indicated by the general oversight given by the Department of Health. The Department of Health undertakes continual review and oversight of the financial operations of all registered health funds. The private funds have experienced the force of those reviews and it is not uncommon for any apparent inadequacy to result in departmental investigators visiting the health fund in question to make a first-hand examination of accounts and suggestions of remedial action. More to the point, there have been several instances in recent years where a private health fund with unsatisfactory solvency margins has been encouraged into a merger and amalgamation discussions with another fund. Yet at precisely the same time, Medibank Private has, with apparent impunity, been able to continue operating in several States with solvency margins which were far less than those of the funds being encouraged into merger.

An analysis of Medibank's Annual Reports suggests that New South Wales has accumulated losses of $5.5 million over its five years of operation, Queensland $8.5 million, South Australia $1.6 million and Tasmania $1.7 million. Health insurance observers believe there is little chance of those losses being reversed in the foreseeable future and one is forced to wonder whether Medibank will be able to survive only by the periodic injection of Federal grants similar to the $21 million in 1978. Government grants are not available to private health funds and they
should not be available to Medibank Private, if competition between the funds is to be on a realistic basis.

To assess the efficiency of health funds, management costs as a percentage of contribution income can be compared. Table 3 below shows that Medibank Private's cost ratio is about double, and in some instances treble, that of the major private health funds. In its Annual Report for the year to June 1981, Medibank Private attempts to explain these high administrative costs by reference to its large establishment costs, a legacy of surplus staff and the need to pay higher salaries (Public Service pay-scale) than its competitors. The high establishment cost is probably true but what is equally true is that almost all major private health funds have undertaken substantial re-structuring over the past five years, including the introduction and upgrading of sophisticated computer systems, and they have done this without a $21 million grant from the Government.

TABLE 3. MANAGEMENT COSTS (EXPRESSED AS % OF CONTRIBUTION INCOME)

<table>
<thead>
<tr>
<th>Year</th>
<th>NSW</th>
<th>VIC</th>
<th>QLD</th>
<th>SA</th>
<th>WA</th>
<th>TAS</th>
<th>AUS</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980/81 MEDIBANK</td>
<td>15.1</td>
<td>13.9</td>
<td>17.9</td>
<td>22.7</td>
<td>19.7</td>
<td>18.6</td>
<td>15.8</td>
</tr>
<tr>
<td>1979/80 MEDIBANK</td>
<td>17.0</td>
<td>12.7</td>
<td>18.4</td>
<td>22.1</td>
<td>17.5</td>
<td>20.8</td>
<td>16.0</td>
</tr>
<tr>
<td>MBF (NSW)</td>
<td>8.3</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>HBA (VIC)</td>
<td></td>
<td>13.1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>MBF (QLD)</td>
<td></td>
<td></td>
<td>8.4</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>MHA (SA)</td>
<td></td>
<td></td>
<td></td>
<td>7.4</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>HBF (WA)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>6.5</td>
<td></td>
<td></td>
</tr>
<tr>
<td>MBF (TAS)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>12.1</td>
<td></td>
</tr>
<tr>
<td>ALL REGISTERED FUNDS</td>
<td>10.1</td>
<td>12.8</td>
<td>11.0</td>
<td>9.9</td>
<td>8.6</td>
<td>13.2</td>
<td>10.8</td>
</tr>
</tbody>
</table>

The reference to a legacy of surplus staff does not seem acceptable as the Government has reimbursed Medibank for all such costs. To quote from the 1979/80 Annual Report, page 37, "Following the abolition of Medibank Standard, Section 31 of the Transitional Provisions stated that the Commission could, where staff were not able to be reasonably employed, declare such staff as being eligible for reemployment.... The salaries of staff subject to declaration under Section 31 were payable by the Commonwealth....these payouts amounted to $3,062,000. The Commonwealth also agreed to reimburse Medibank Private for the cost of maintaining records, etc. relating to these staff.... This reimbursement of $1,937,940 has also been credited to Salaries and Associated Costs".

This is to say, $5 million has been reimbursed to Medibank for its surplus staff problem.
A major reason for its excessive costs is that Medibank Private must pay its staff higher salaries. Medibank employees are on the Public Service salary scale which is higher than that of employees in the private sector.

But Medibank Private cannot have it both ways. It cannot be divorced from the Government and maintain that it is a statutory authority completely independent competing in a commercial world, and still be bound by determinations of a government body — the Public Service Board.

Not only are its wage costs higher than those in the private sector but Medibank employees enjoy membership of the notorious public service superannuation scheme. If the scheme is properly funded from Medibank’s income then it must add about 30 percent to labour costs over and above the costs of labour to the private employers. If Medibank is not investing sufficient funds to meet future commitments under its superannuation scheme then at some time in the future the Government will have to come good with a substantial subsidy at the expense of the general taxpayer, as is already happening with other government authorities.

A Federal Senator recently expressed concern about Medibank’s high costs in the following terms, “One must also have grave reservations about the lavishness of style of Medibank Private, its office accommodation, the expensive paraphernalia of logos etc. and recently the promotion of golf championships and sporting events of that nature. One does not see that sort of activity coming from private funds which husband their resources.”

There is one important difference between Medibank Private and other government financial institutions. Governments of whatever political complexion are not likely to withdraw totally from the insurance and banking markets. The best that can be hoped for is that government take steps to alleviate some of the damage stemming from the way in which they participate in the financial markets.

With Medibank Private, however, we believe the Government should be able to take more decisive action that will lead, in time, to government withdrawal from this sector of the financial market. The new Minister for Health, a self-confessed small government man, is clearly the one to do the job.
PROFITS AND THE PRIVATE SECTOR

In the March and June quarters of this year company profits fell to probably their lowest level of the entire post-World War II period. Figures released by the Australian Bureau of Statistics show that the profit share of the Gross Domestic Product (excluding farming industry) was 12 and 12.9 percent respectively. This compares with 17.3 percent ten years earlier. The respective share of wages was 63.2 percent (in 1972/73) and 68 percent.

The story of company profits over the last decade is told in the following table which shows the profit share of the Gross Domestic Product (excluding farming industry) at factor cost. The share of salaries and wages is also included for purposes of comparison.

WAGES AND PROFIT SHARE
(% OF NON-FARM GDP AT FACTOR COST)

<table>
<thead>
<tr>
<th>Year</th>
<th>Wage Share</th>
<th>Profit Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>1972/73</td>
<td>63.2</td>
<td>17.3</td>
</tr>
<tr>
<td>1973/74</td>
<td>67.6</td>
<td>16.6</td>
</tr>
<tr>
<td>1974/75</td>
<td>68.7</td>
<td>12.6</td>
</tr>
<tr>
<td>1975/76</td>
<td>67.3</td>
<td>13.6</td>
</tr>
<tr>
<td>1976/77</td>
<td>66.6</td>
<td>14.0</td>
</tr>
<tr>
<td>1977/78</td>
<td>66.6</td>
<td>13.7</td>
</tr>
<tr>
<td>1978/79</td>
<td>65.2</td>
<td>14.1</td>
</tr>
<tr>
<td>1979/80</td>
<td>65.2</td>
<td>14.4</td>
</tr>
<tr>
<td>1980/81</td>
<td>65.7</td>
<td>14.9</td>
</tr>
<tr>
<td>Q.1</td>
<td>65.1</td>
<td>15.1</td>
</tr>
<tr>
<td>Q.2</td>
<td>64.2</td>
<td>15.6</td>
</tr>
<tr>
<td>Q.3</td>
<td>68.1</td>
<td>12.0</td>
</tr>
<tr>
<td>Q.4</td>
<td>68.0</td>
<td>12.9</td>
</tr>
</tbody>
</table>

(Profit in this table is before deduction of depreciation provisions, interest, land rent, royalties and direct taxes. In addition to these deductions, companies must retain a proportion of profits for replacement of plant and equipment, where depreciation is not sufficient for this, as well as for an expansion of activities. The residual is available to shareholders as dividend. Dividends account for only about 1 percent of total household income in Australia.)

In 1972/73 the profit share at over 17 percent was around its historical average. This means that for most of the last decade the share of profits has been substantially below its customary level.

The profit share started to fall precipitously soon after the Whitlam Government came to power. One of the more creditable achievements of the Fraser Government during its six years of office has been to reverse the calamitous profit decline which took place under the Labor Government and to effect a fairly steady improvement. But recent events, the deepening world recession and the post-indexation wage explosion, have proved too much for it. In the March and June quarters of 1982, the figures suggest...
that profits may have fallen to an all-time low.

At the same time as profits have fallen, the wage share has risen — average earnings increased indeed by 17 percent in the past year. The rise in the wage share has been a main factor in the erosion of profits.

Until there is marked recovery of profits there will be no recovery of the economy. Nor will there be any improvement in the gloomy employment picture.

In a paper (Statement No. 2) accompanying the 1979/80 Budget, the Commonwealth Treasury stated, “For some years now the Australian economy has been affected by fundamental distortions which have severely inhibited its performance....The gross return to private investment has been greatly reduced, another manifestation of the factor price imbalance, with a consequent question mark over the long-term expansion of the private sector.”

★ ★ ★ ★

The free enterprise sector — these days commonly called the private or market sector — despite the threatening inroads of government during the 1970s, remains the cornerstone of the Australian economic system.

Nor is this situation likely to change no matter what the political party in power. Australians, by and large, are a down-to-earth people and they know very well that the standards of living they enjoy, the “goodies” they desire, displayed before them in such lavish abundance in the stores and supermarkets, are the product not of government but of the privately owned and managed farms, factories, mines and shops which make up what we know as the free enterprise system. Moreover, this understanding has been reinforced in recent years by their experience of Big Government with its bureaucratic interferences, wastes and inefficiencies and, above all, its inevitable concomitant of crushing taxation which extracts such a painfully large slice of their hard-won earnings.

But this salutary — although almost instinctive — acceptance of the key significance of free enterprise to the realisation of their personal aspirations for a better life is far from matched by a corresponding understanding of what is needed to make the all-important private sector work with maximum effectiveness. A private sector that is robust, confident, expansive is one thing: a private sector, anaemic, depressed, weighed down with uncertainties and taxes is quite another. And this lack of public understanding is, as we might expect, reflected in the policies of governments. It is one of the ironies of life that governments, which stand to benefit, both politically and economically, from the success of the private sector not infrequently pursue policies which inhibit that success.

The outstanding, but by no means the only, example of this in recent years was the squeeze on company profits engineered by the Whitlam administration soon after it came to power in 1973. Positive encouragement was given to
exorbitant wage increases at the same time as compensatory price adjustments were prevented through the mechanism of the Prices Justification Tribunal. Nor was this the end of the matter. The explosion of government spending under the Labor Government led to increases in taxes and the withdrawal of tax measures designed to encourage investment. On top of all that the over-valued Australian dollar was imposing additional strains on business in competition with overseas suppliers. By the end of 1974 the disastrous effects on investment, employment, and business confidence of this squeeze on profits compelled the Government to change direction. Mr. Whitlam himself indicated to Parliament that he would instruct the Prices Justification Tribunal to "now give particular attention to the problem of sustaining and stimulating an adequate level of private investment and of maintaining rates of return on capital which will induce the new investment".

This example is particularly instructive. It underlines a simple but fundamental truth about the private sector; namely, the fuel that drives business, that causes it to invest and to expand and, in the process, provide employment, is the rate of profit and the future prospect for profit. The prospect of a satisfactory rate of return on invested capital is the key to the health of the private sector of the economy. What inducement is there, for instance, for people to risk their savings in a small business enterprise when they can get a certain return of 17 to 18 percent by investing in a reputable finance company or building society? If profits are undermined, either by the actions of governments or trade unions, or by world economic recession, enterprise will be discouraged, the machinery of private enterprise will slow down, employment will fall and living standards will decline. And not only that; the revenues of governments will be adversely affected and thus their capacity to provide the abundant welfare and other services which the modern community has come to expect.

The great classical economists understood all this very well. The analysis of the operation of the market was indeed at the very core of their teaching. But the post-Keynesian economists (though not Keynes himself), with rare exceptions, overwhelmingly concerned, as they have been, with government direction of economic forces, relegated the market to the back seat. Their concern has been not to promote the well-being of the private sector, but to expand the ambit and authority of the public sector. The central role of profit in the economy has thus come to be down-graded, even ignored, in modern economic thinking.

A recent paper by one of the recognised leaders of economic thought in the United States, Martin Feldstein, (Professor of Economics at Harvard and President of the National Bureau of Economic Research) demonstrates the disastrous effects of big-government, neo-Keynesian thought on the return on capital and the economic performance of the U.S. economy over the last decade. From the mid-1960s to the mid-1970s the tax bite on those who provide the capital for industry rose from 55 percent of real income to 68 percent. Feldstein writes "...the share left for the providers of capital fell from
45 percent to 32 percent, a decline of nearly one-third. The real after-tax rate of return to those who provide the debt and equity capital was only 3.1 percent by the late 1970s, just not enough to provide an adequate incentive for saving and risk-taking. This 3.1 percent return represented a 40 percent decline over a ten-year period. It is not at all surprising, therefore, that the investment rate also declined by 40 percent between these dates.

The current world economic recession, which has now impacted with some force on the Australian economy, is quite largely a consequence of the stagnation of the U.S. economy and the spread of this throughout the Western World, and beyond.

Economic recessions, in today's world any way, are man-made: they are not caused by Acts of God, by natural disasters, or by spots on the sun (as the 19th century economist, Jevons, thought); they are the result of human error, misjudgement, and ignorance. If we had acted differently, the present world recession might have been avoided.

The economic slump we are now experiencing may be traced to two distinct, though inter-related, forces: the progressive expansion of government (the public or non-market sector) with its inevitable accompaniment of punitive taxation on the one hand, and the escalation of incomes of all kinds with the single exception of profits on the other: an escalation in no way related to the capacity of the various economies to sustain such increases without steep rises in costs and prices.

The last decade has seen a sustained inflation unparalleled in the economic history of the Western World.

This inflation is at the root of the world recession as it is of the Australian recession.

Sooner or later it was bound to catch up with us: sooner or later the chickens of inflation were bound to come home to roost. One of these chickens is the effect of inflation on real profits, on business confidence and investment plans.

The Australian economy is now in its most serious slump since World War II. The customary measure of recession, unemployment, at 7 percent, is at its highest level since 1937. But all the economic indicators are similarly gloomy. The heralded resources "boom" has, for the time being, vanished into thin air. The resource industries faced with a collapse in profits, have felt compelled to jettison investment plans, at least for the time being, and to cut back employment. And a good part of the rest of industry is in no better shape.

At the root of it all is the decline in profitability whether caused by the overseas downturn or by steep rises in wage and government costs, or, as in most cases, by both.

There is a real danger at the moment that, as a nation, we will sit back and say that there is nothing we can do about our
present plight until the world economic situation begins to recover: that any improvement in our own position is contingent on an improvement in the world economy. That would be a seriously mistaken and negative attitude.

The prospect for investment and employment in Australia would, of course, improve vastly if we were to wake up tomorrow morning and find that commodity and metal prices had made a miraculous recovery. But until that happy day dawns we should do what we can to restore some measure of health to the all-important private sector of the economy.

What does this mean in terms of practical policy?

It means that governments should take all possible steps to restore the incentives for private industry to invest and expand. In straight simple terms, the prospects for profit must be improved. This can be done by carefully directed appropriate tax incentives for industry. It means also, and above all, an end, for the time being, to any further increases in wages (and other non-profit incomes) and thus in industrial costs.

The Commonwealth Government has acted rightly, if somewhat belatedly, in introducing accelerated depreciation write-offs for industry and for providing, for the first time, for depreciation allowances on commercial buildings. It has also done the wise and commonsense thing in postponing, for the time being, any further reductions in tariff protection.

We must learn again the inescapable economic truth that profits, jobs and living standards run hand in hand.
SUPERANNUATION,
LOOKING AHEAD —
A POINT OF VIEW

by A.W. Coates, General Manager, AMP Society

When considering the future of retirement benefits in Australia it is necessary to embrace the wide range of influences at work. While there are many improvements which should be made, social pressures, political expediency and the financial impact could continue to limit changes to patchwork modifications to the existing structure of private and public sector retirement and age benefits — unless there is some form of national consensus reached.

Time may be fast running out for some decisions to be taken by Government and unless action is taken in the early 1980’s this generation could be seen by our ageing, and by our children and grandchildren, as having turned its back on its responsibility in this area.

National Superannuation Considerations

In September 1981 the Life Insurance Federation of Australia promoted an approach to a National Superannuation plan for this country. The purposes of the initiative were to highlight the inadequacies of the present arrangements, to offer one practical solution and to encourage public discussion of how best to meet the financial problems of an ageing Australia.

When it is considered that the three members of the Hancock Committee of Inquiry into a National Superannuation plan for Australia were not able to bring forward a unanimous opinion as to how the matter should be tackled, it is not surprising that there has been some divergence of opinions over the LIFA proposals. Essentially there are two basic approaches which might be considered.

One approach is to provide a National Plan with benefits related to income and with compulsory contributions by employers and employees. This could not be fully effective for many years and would create high expectations among contributors, while still leaving the nation with a continuing social responsibility for itinerant or part-time workers, for those not in the work force and those in the present community with insufficient years remaining to build up reasonable benefits. Management of such a plan by a Government instrumentality would require a substantial increase in the Public Service and, if it were operated on a funded and invested basis, would expose the billions of $’s involved to the whims and electoral expediency of future Governments. We have already witnessed
the fate of such a fund in New Zealand.

A second approach, and the one suggested by LIFA, is for the National Plan to be virtually an extension of existing pay-as-you-go Social Service benefits with a basic pension available to everybody but with additional benefits for those able to satisfy a proper means test. This approach would provide more generous benefits than at present for qualifying pensioners and an indexed but lower benefit for the rest of the community, on top of which a further provision might be arranged personally or in conjunction with one's employer. Benefits would be paid from Consolidated Revenue, and the administrative framework is already in place through the Department of Social Services.

Since the LIFA initiative many interested bodies have considered the problem and there has been a great deal of media comment. Importantly it is known that both the major political parties have Committees working on the question. I believe the long-term future of the aged and of future generations of taxpayers in this country would be best served by the establishment of a joint-party Committee to address the issues involved.

Certainly until the basic question is resolved of how the ageing Australian population is to be supported, the community will not be in a position to diverge too far from the present approach to occupational superannuation. That is not to say that there are not matters which should be addressed immediately both through Government initiatives and by those responsible for the management of superannuation plans.

Occupational Superannuation Considerations — Government

On the Government side there are three significant areas which require attention.

- The inequitable taxation treatment of superannuation benefits expressed in pension form, as against lump sum benefits, should be rectified. Because such a decision may involve changes which could be politically unattractive in the short term a joint party approach is needed to tackle this problem.

Pension-based superannuation plans are the norm in other countries because they can be most conveniently dovetailed into Government provisions. Australia is out of step in its current approach. In times of high inflation the maintenance of the purchasing power of a retirement pension is of paramount importance. If a move is initiated to encourage superannuation benefits to be provided in pension form, some Government safeguard would be needed — possibly by the sale of inflation-proof bonds (but restricted to those providing pension benefits for the aged).

- Vesting and Preservation of existing benefits on change of employment. For
years successive Governments have observed employees accepting cash benefits from their superannuation when changing jobs and regularly dissipating the cash. Ultimately, most of these employees seek age pensions, and the Government loses the saving which it should rightfully expect from the taxation incentives it provides for contributions by employers and employees to occupational superannuation plans.

Compulsory vesting in employees of their benefits and compulsory preservation of those benefits would rectify this situation. Unless handled with discretion, it could be politically unpalatable, because it would increase the cost to the employer of his superannuation, especially if he has a mobile work force. Similarly it would deny the mobile worker a source of virtually tax-free money when changing employment. Again such a move calls for political courage and initiatives but it should be addressed.

I believe that employers would be more inclined to support compulsory vesting, either totally from a given date or on a graduated scale according to age and service, if they knew that the monies were to be used for the purpose for which they were originally outlaid. Too often employers are under the impression that workers regard superannuation benefits as a source of finance for a particular requirement and that they are prepared to change employment to secure access to such funds. Taxing of at least the employer's share of the benefits that are taken in cash by a departing employee and/or compulsory preservation of benefits over a certain age are just two of the options available to Government in making a much-needed change.

Preservation of such monies could readily be achieved by the existing interest being transferred to the new employer's fund or by it being invested in an approved preservation fund. A range of these funds would provide necessary competition and provide the employee with a choice of organisations to look after his money.

- Assistance to the Taxation Commissioner, by legislation if necessary, to enable him to effectively cope with tax minimisation arrangements in the superannuation area without upsetting genuine superannuation arrangements.

Over the past several years the Tax Commissioner has produced a series of guidelines, the implementation of which have put all superannuation managers to considerable expense. Appropriate legislation is necessary to discourage those who cause unnecessary involvement of the Tax Commissioner in the normal running of a superannuation plan. However it is essential that a stable tax situation emerges to avoid a repetition of the many changes over recent times.

**Occupational Superannuation Considerations — Private Sector**

Changing life styles and community
standards are matters which both employers and superannuation managers need to consider and act upon. A few examples will illustrate the point.

- The age of consumerism has meant that both employers and plan members are seeking better management of, and reporting on, all aspects of their superannuation arrangements. Two examples come to mind — the closer scrutiny of investment performance and the general movement towards more effective communication between the plan manager, the employer and the ultimate beneficiary — the employee.

Most employers will be aware of the existence of comparisons of the investment performance of various fund managers but would acknowledge difficulty in interpreting the figures provided. Frequently short-term situations are highlighted while significant long-term results are easily glossed over. An appreciation of any investment return requires an understanding of the philosophy behind the investment as well as the quality and quantity of the assets involved.

On the communications side employers have been encouraged to keep their employees informed in respect of their superannuation plan. Improved booklets, better quality member advices and audio-visual explanations of plan benefits are just some of the different approaches being utilised. Continued expansion of services to provide readily understood information to members, their wives and other possible beneficiaries is anticipated.

- The interest of the union movement in superannuation matters is now well acknowledged. The fact that it is seemingly quiescent at the moment should not be interpreted as a reduction of commitment in this area. No doubt the wage indexation situation (or lack of it) has led to an adjustment of priorities but I have no doubt that this subject will loom large again in due course.

In the background also will be continuous pressure to not only increase benefits but to liberalise the conditions under which they are paid.

- Social changes will need to be reflected in the benefit provisions of modern superannuation plans. Traditionally benefits have been designed to fit the needs of a breadwinner-dependent spouse situation but social acceptance of changing standards will require a more flexible approach.

Plans will now need to recognise that homes are shared without marriage, that divorces and re-marriage occur frequently, that career women who defer or pass up parenthood are a fact of life and that many people wish to retire at an age other than 65. Superannuation managers face the challenge of bringing plans into line with the developing changes in lifestyle.
Technological change will have an impact on the administration of superannuation plans and there is significant evidence of this occurring.

Superannuation Managers have spent considerable effort in producing sophisticated computer systems to provide immediate and improved output covering functions relative to the satisfactory operation of plans.

Further improvements are in train and the dovetailing of computer output with word processing systems will add another dimension. Ready access to member information through a terminal in an employer's office is an extension of these developments. I am certain that as technology improves and the cost of machinery continues to fall, these will be seen but as initial steps in a whole range of improved services and output.

Overall there is a need for superannuation managers to review the total package they provide and communicate better with employers to ensure that the range of services provided meets their needs. The next few years will undoubtedly see a greater range of services available to assist employers with specific requirements in the personnel area.

I await Government, industry and employer responses to the great challenges ahead with a great deal of interest.
INVITATION TO MEET WITH
PAUL JOHNSON —
TUESDAY NOVEMBER 30th

Paul Johnson, the noted British historian, journalist, and broadcaster
is coming to Australia for a lecture tour.

The Institute of Public Affairs will be arranging the main public
occasion during his visit to Melbourne — a dinner on Tuesday,
November 30th at the Southern Cross Hotel.

Johnson, who was editor of the left-wing “New Statesman” for the
period 1964-70, resigned to take up full-time writing, and to re-assess his
political position.

Some of Paul Johnson’s views:

On the Role of the State
“…I have come to see the state as the
biggest obstacle to individual self-
expression and moral maturity of
everyone of us, and most of all the
poor, the humble and the passive.”

On Trade Unions
“In Britain it is demonstrably true
that the legal privileges of trade
unions, which virtually exempt them
from any kind of action for
damages----------lead directly to
restrictive practices, over-
manning, low productivity, low investment,
low wages and low profits.”

On Education and Free Enterprise
“There can be no doubt that the
intellectual and moral assault on free
enterprise, and the exaltation of the
Marxist collectivism which is such a
striking feature of the 1970s is
directly related to the huge expansion
of higher education put through at
such cost to the capitalist economies
in the 1960s.”

On the Media
“It is not difficult to poison the
wells of truth. In a free and easy-
going country such as ours,
newspapers and T.V. networks are
easily penetrated and manipulated by
those who dislike liberty, as most of
us understand the term, or who
redefine “freedom” in ways which
would involve stopping us from
learning the truth.”
The I.P.A. believes that Paul Johnson will make a significant contribution to public debate in Australia on such matters as unionism, free enterprise, education and the media.

You are invited to participate in this important occasion on the evening of November 30th (7 p.m. for 7.30 p.m.) by posting the reservation form below, together with an appropriate cheque ($30 per head). Telephone enquiries should be directed to The Administrator of the Institute, Mr. John McClure on 61-2029.

DINNER FOR
PAUL JOHNSON

To: The Administrator,
Institute of Public Affairs
401 Collins Street,
MELBOURNE VIC. 3000

Place: Southern Cross Hotel
Date: Tuesday, November 30th
Time: 7 p.m. for 7.30 p.m.
Cost: $30 per head.

I will attend the Paul Johnson Dinner.

NAME: ........................................
TELEPHONE NO. .... ORGANISATION ....
Enclosed is my payment for... Dinners @ $30 each = $...
ADDITIONAL NAMES
OF THOSE ATTENDING ................................
..................................................
..................................................

SIGNED: ....................................
WORLD FOOD DAY
SATURDAY, OCTOBER 16th, 1982

World Food Day was instituted by the United Nations Food and Agricultural Organisation (FAO) in November 1979, to act as a focus for activities dedicated to action against world poverty.

To coincide with World Food Day, the Australian Freedom From Hunger Campaign, which was established by FAO in 1961, is conducting a Door-knock Appeal and a Freedom Fast.

Freedom From Hunger is a voluntary, non-government, all Australian Aid Organisation committed to a programme of action to fight world poverty and its causes through the support of the Australian public.

Through donations provided by the public, Freedom From Hunger is involved in SELF-HELP projects in 23 countries in Asia, Africa, the Pacific and Australia.

All the projects of Freedom From Hunger aim towards one final objective — that people, through their own self-sufficiency, can be Free from Hunger.

You can support the self-help projects and help the poor help themselves by participating in the

FREEDOM FAST.
To obtain your individual or group participants kit phone the FASTLINE
(03) 63 9157
or write to Freedom Fast, Box 1417M, MELBOURNE, 3001
Contributed articles by noted authorities in Australia and overseas dealing with matters of public interest are published from time to time in *IPA Review*. This Institute is not necessarily in full agreement with the views expressed in these articles. They are published in order to stimulate free discussion and inquiry.