

# INSTITUTE OF PUBLIC AFFAIRS

# Review

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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.

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# TO OUR READERS

*You will notice that there is a new look to this I.P.A. 'Review'.*

*The articles cover a wider range of topics: The Media and Public Debate, Education and Unemployment, Free Enterprise and The Churches are some of the subjects discussed.*

*In order to assist with this wider approach, more use is made of contributed articles by people who are specialists in their fields. We are pleased to publish in this 'Review' such eminent writers as Professor Leonie Kramer, Chairman of the A.B.C., and Paul Johnson, the distinguished British writer and broadcaster.*

*We have tried to retain the best of the 'Review' tradition, articles which are succinct enough to meet the needs of the busy reader and which are comprehensible to the non-specialist.*

*One of the features of public debate in Australia in recent years has been the growth of highly active lobby groups which promote 'Big Government' and often anti-free enterprise views.*

*Those associated with the I.P.A. believe it is quite crucial to the well-being of our democratic society and to the future of our country that free enterprise be more effectively promoted. This 'Review' represents a first response to this challenge. Others will follow provided we can obtain the support we need to expand our activities.*

*'Review' has a circulation of 21,000 among present and future leaders in our community. Businessmen, teachers, students, parliamentarians and public servants are numbered among our readers and supporters. We hope this new approach will build our circulation still further.*

**Rod Kemp**  
Director

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Contributed articles by noted authorities in Australia and overseas dealing with matters of public interest are published 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.

## **Editorial —**

# **“WANDERING IN A CIRCLE IN THE BUSH”**

**The Premier's Conference of December 7, may have achieved less than many people hoped for: there are certainly some loose ends.**

**Nevertheless, it served to dramatise the over-riding imperative of an end to wage rises for the time being.**

Whether the freeze is to be for six or for twelve months doesn't matter all that much: although the latter would be preferable. What does matter is what happens at the end of the freeze.

The importance of the freeze is that it provides us with the opportunity to restore moderation and common sense to the whole process of wage and other income adjustments. We are now paying the price — a price admittedly compounded by the world economic recession — for a decade and a half of economic stupidity.

It all started in 1967 when the senior arbitration body itself, in the notorious Metal Trades Award, abandoned the principles which had governed its approach to wage fixation since its foundation at the beginning of the century.

The 1967 Judgement set in motion a succession of wage increases (spreading to other incomes) which continued into the 1980s (aided and abetted by Government policies in the 1972-1975 period) and which were unprecedented in Australia's history. Instead of the 3 to 4 percent yearly additions to wage levels (largely reflecting productivity gains) which were the norm up to that time, we now had, and expected, 10, 15 and even 20 percent, along with higher penalty rates, absurd holiday loadings, get-rich-quick superannuation (for some) and, latterly, shorter hours.

This revolution in expectations bore no relation at all to the economy's capacity to support the demands made upon it without rampant inflation and the steady erosion of profits and, consequently, employment. Unemployment, let it be said, did not start with the world economic slump. It began to appear long before that.

The talk of “catch up” at the end of the freeze is dangerous nonsense. It seems to carry with it the implication that we can eventually get back to the situation which existed before the freeze, of massive yearly additions

to incomes. This, of course, would undo the purpose of the whole exercise which is to restore wage and other income adjustments to a non-inflationary level. The Commonwealth Government is entirely right in its insistence that, when the freeze ends, the "capacity to pay" or productivity principle should be restored as the centrepiece of the structure of wage determination.

If the freeze fails to impress Governments, wage-fixing bodies, employers, unions and the rest of the community with the absolute need, in the future, to live within the nation's income, it will have miscarried. It is worth recalling the words of Professor L.F. Giblin, possibly Australia's greatest economist, during the Great Depression of the 1930s. "Higher wages" wrote Giblin, "can be got only in two ways — with greater efficiency or at the cost of unemployment. You don't believe that. I don't expect you to all at once. But until you do you will be wandering in a circle in the bush." That is what we have been doing since 1967 — "wandering in a circle in the bush". Our departure from the high road of economic virtue has led us into the wilderness of catastrophic inflation, high unemployment, and, now, a stagnant economy and falling living standards.

It would be a serious mistake to attribute all our present ills to the world recession. The Australian economy was already in a gravely weakened condition long before the international economic climate turned sour, and long before the drought.

National economic health can be profitable compared with the physical health of the individual. There are certain ground-rules which must be observed. If we continue to abuse our bodies by immoderate eating and drinking or by other excesses all the doctors and pills in the world cannot restore us to good health.

The economy is no different. If the basic conditions of economic health are flouted, an army of economists would be unable to restore the economy to strength and vigour. We're in the mess we're in, not so much because of the recession and the drought as because of the excesses of the last decade and a half, our failure to observe the ground-rules, and our neglect of the laws of economic health.

One of these rules is that the price of labour must by and large reflect the market. If the price is pushed too high less labour will be employed. Who can doubt that one of the reasons for the distressing unemployment among teenagers is that the minimum award rates make their employment uneconomic for many employers?

Another law is that profits are the engine of growth in the private

sector. It is profit which encourages new business investment and provides the funds for expansion. Reduce profits and the private sector will stagnate, and so will employment. For a decade now profits have been eroded by steeply rising wage costs on the one hand and steeply rising taxes on the other.

A third and related law is that if taxes become too high, investment enterprise and individual effort will be discouraged, and growth, productivity and thus living standards will suffer. This must place limitations on the size and growth of government in a free enterprise economy. The explosion of government spending which took place in the first half of the 1970s was one of the factors causing increased unemployment. This does, however, not deter many people from seeing the remedy for the present employment crisis in further increases in government spending.

There is indeed no shortage of "doctors" who believe they have the cures for the current ills of the economy. It is rather ironical, is it not, that among the most prominent are the very people who are largely responsible for the situation we now face — "the guilty men", they could be called — some union leaders, and a sprinkling of left-wing politicians and economists. It is a pity that some churchmen and spokesmen for welfare agencies are supporting policies — increasing government spending, for example — which will only serve to harm the long term interests of the very people they are trying to help.

Perhaps it is too much to hope that all these people will learn the lesson from the experience of the last decade and a half. But we all must learn those lessons if the freeze is not to end in fiasco. If we do not, the benefits of the world economic recovery, when it comes, will largely pass us by.

# **BRITAIN AND THE WORLD CRISIS; THE RESPONSE OF THE THATCHER GOVERNMENT**

Australia is now firmly in the grip of the world crisis. Paul Johnson discusses the origins of the crisis, the way it has hit his own country, Britain, and the lessons we can all learn from it. Paul Johnson is a well-known journalist, broadcaster and historian. He was editor of the left-wing "New Statesman" from 1964-1970 before resigning to reconsider his political position.\*

★ ★ ★ ★

The Western World, in my view, came close to breakdown in the second half of the 1970s, and it is by no means out of the wood yet, though, the worst is probably over.

The principal cause of the breakdown was the combination of high inflation and weak leadership, particularly in the United States. Of course, the Western World, led by the United States, has been inflating steadily since the 1950s. One lesson we have had to learn is that inflation, however convenient it may seem, always has to be paid for in the end, in full and with compound interest. Inflation tends to accelerate, and it was already accelerating in 1973 when the OPEC powers quadrupled the price of oil and so began the acute phase of the inflationary crisis.

By an unhappy coincidence, this opening of the acute phase coincided with the collapse of American Presidential leadership. America had the singular misfortune of experiencing three failed or weak Presidents in a row — Nixon, who was assassinated by a media vendetta, Gerald Ford, and Jimmy Carter — one of

the worst Presidents in America's history. The cumulative effect of these three consecutive weak Presidencies was devastating. As inflation speeded up and the world moved into recession, America was unable to tackle her own domestic economic ills, let alone provide world leadership.

During these years, 1973 to 1980, while the Western World moved into deep recession, the balance of military power also shifted, first gradually, then with increasing speed, in favour of the Soviet Union. America awoke to this fact only after the invasion of Afghanistan — itself prompted by growing Soviet self-confidence — and then began a belated and uncertain process of rearmament. I believe that we perhaps came very close to the third world war during that last phase of the Carter Presidency. For nothing is more dangerous and irrational than when a great power, weakly led, suddenly realises that its existence has been put in peril by its own appeasement, drift and military unpreparedness. In such circumstances a great power is liable to become paranoid, and paranoia was never far away in Washington during 1980 when

\*An extract from the text of a speech given by Paul Johnson at a dinner arranged by the I.P.A. on November 30, 1982. The full text of the speech can be obtained from the I.P.A.

Carter struggled with the appalling consequences of his errors, especially in Iran.

It is against this background of American weakness that we must examine Britain's problems. Albeit on a smaller scale, they were far more serious. Since the resignation of Sir Winston Churchill in 1955, Britain had suffered a permanent leadership crisis and a cumulative inflation far more daunting than America's. All subsequent Prime Ministers were first overwhelmed, then destroyed by events. All were forced into abrupt reversals of economic policy or U-turns by their unwillingness or inability to resist political pressures. Above all, they lacked consistency.

### **Vacillating Governments**

During the whole of this period, 1955 to 1979, a quarter of a century, it is impossible to point to a period of more than 12 months when a consistent Treasury policy was pursued, and during this long period, when the relative economic and military power of Britain declined steadily, Governments became weaker and more vacillating. During the last period of Labour rule, 1974 to 1979, there were no less than sixteen budgets, most of them emergency ones, as Ministers reeled from one miscalculation to another. And it was significant, that the last three Governments, Harold Wilson's, Heath's, and Callaghan's in 1979 were all destroyed by the anarchic power of the trades unions. After a quarter century of weak leadership, Britain appeared almost ungovernable.

During the Seventies, while America was undergoing its own leadership crisis, Britain's position deteriorated sharply,

indeed with terrifying speed. The incoming Labour Government in 1974, perhaps the weakest in recent British history, authorised public sector wage settlements of 25, 30, even 40 per cent. In 1976 Britain's inflation rate was nearing 27 per cent and about to jump into hyperinflation. People were becoming frightened and groups of workers in panic were putting in monstrous wage claims because they anticipated yet further accelerations in prices. In Autumn 1976, the British Government, like a prodigal banana republic, was forced to go on its knees to the International Monetary Fund for short-term financial cover.

Throughout the 1970s the state sector continued to expand fast. In 1955 there were 1,000,000 local Government employees. By 1977 the number passed the 3,000,000 mark. The number employed by the National Health Service for instance, jumped from 500,000 to nearly 1,200,000 by the end of the 1970s, becoming the largest employer in the whole of western Europe. The Central Civil Service pushed its numbers up to three quarters of a million. There were a further 200,000 people employed by Government fringe bodies or QUANGO's. This represented an enormous shift of resources from the productive private sector to the unproductive public sector. By 1975 public expenditure in Britain had risen to over 59 per cent of the gross domestic product at factor cost and the budget deficit, that is the total public sector borrowing requirement, had risen to nearly 11½ per cent of G.D.P. These public sector costs were increasingly difficult to reduce because they consisted increasingly of wage costs. You could not cut the public sector effectively without increasing unemployment and

unemployment was rising fast anyway. It stood at just over 500,000 when Labour took office in 1974. By mid 1977 it had jumped to 1,350,000. Thereafter, it has climbed steadily to past the 2,000,000 mark in 1980, 3,000,000 in 1982.

With unemployment rising inexorably, as the consequences of long-term accelerating inflation eroded the economy, resistance to manpower cuts in the public sector strengthened, particularly since the public sector unions increased enormously in power during the 1970s.

In Britain, all union power increased during that decade. It did so in three respects, first at a psychological level by its ability to overthrow and terrify Governments and so inhibit them from taking remedial measures. Second, at a physical level, by the development of flying pickets and secondary picketing, quasi-legal devices pioneered by Arthur Scargill of the National Union of Mineworkers. Third, at a legal level. Since the Trade Disputes' Act of 1906, Britain has been altogether exceptional in granting legal immunities to trades unions, especially from all actions for damages in breach of contract. These privileges were reinforced by the Labour Government of 1964 to 1970; and during the seventies by the three Labour acts of 1974, 1975 and 1976, which were written into the statute book virtually at the dictation of the trades union bosses. These put the coping stones on an extraordinary edifice of trades union legal power. As Lord Denning, Britain's greatest living judge put it in 1977, "Parliament has conferred more freedom from restraints on trades unions than has even been known to the law before. All legal restraints have been lifted so that they can now do what they will".

If the power of all unions increased in the seventies, the power of public sector unions increased most dramatically. In absolute numbers, because of the expansion in the public sector, and because they were the chief beneficiaries of the expansion of closed shops. The 1974 and 1976 acts not only repealed all previous statutory limitations on closed shops, but made it legal for an employer at the insistence of the union to dismiss a worker for refusing to join a closed shop without any compensation or legal redress whatever.

By a curious irony, however, it was the power of the public sector unions, and their blind and arrogant use of it, which in the early weeks of 1979 knocked the stuffing out of the Callaghan Government, the best friend the British Trades Union Movement ever had, and in consequence, made a Labour electoral defeat inevitable. It put Margaret Thatcher in power and so began the process of redressment.

I have sketched in the international background and the national background of economic decline and structural weakness to emphasise the magnitude of the problems faced by the Thatcher Government when it took office in June 1979. For all practical purposes, Britain was on her knees. Moreover, although the origins of the world crisis go back to the progressive inflation from the late 1950s onwards, and although the detonator was the oil price revolution beginning in 1973, the full effects of the depression only began to be felt in 1979, certainly in Britain. The Thatcher Government thus took office at the beginning of the acute phase of the downturn in world trading, with its consequent effects on national income, industrial activity and



employment. Britain was already by far the weakest of the major industrial economies when it entered the eye of the storm in 1979. We must bear this in mind when assessing the Thatcher Government's performance.

### **"A Handbag Economist"**

Now the first thing to be said about this performance is that it has been consistent. For the first time in a quarter of a century a British government has laid down a clear line of economic and financial policy and stuck to it for the duration of a whole Parliament. Despite all the efforts of the Opposition and the trades unions, large sections of the media, the left wing of the Conservative Party, the Wets within the cabinet, and also what I call the "begging bowl sector" of British industry, Mrs. Thatcher and her Chancellor of the Exchequer, Sir Geoffrey Howe, have stuck firmly to their declared policy. This is often called monetarism or Friedmanism, the doctrine of the Chicago School of Economics, which argues that the control of the money supply is the key factor in economic policy-making. Actually, it is simpler and much less technical than that. Mrs. Thatcher is not a monetarist as such; she is what I call a "Handbag Economist". She has the approach of a shrewd and sensible housewife. She believes that it is wrong to spend more than you can earn, or to borrow even in necessity more than you can easily and swiftly repay. She believes the books must be balanced, that wage rises must be paid for by increased productivity and above all, that money should be honest. Into this framework the monetarist notion that, unless the supply of money is related to the real total of goods and services available, the result must be inflation, naturally fits very well.

For Mrs. Thatcher holds, rightly in my view, that inflation is the greatest of economic evils because it is the father of all the others. Inflation is not an alternative to mass unemployment. It is the ultimate cause of mass unemployment. Hence, Mrs. Thatcher has made the permanent reduction of inflation the overriding aim of her policy. Sound money is her alpha and omega, her Ark of the Covenant and her Holy Grail. She has met, it is true, many reverses. Jim Callaghan's strategy of reflation, in a desperate attempt to win the 1979 election, meant that a fresh wave of inflationary pressure hit Britain in 1979 to 1980. And various errors of judgement in the Government's first months in office meant that public sector spending continued to expand rapidly in the first full year, with a corresponding rise in public borrowing. Moreover, while the inflation rate continued to edge upwards, the effect both of the Government's efforts to reduce it, and of the gathering world depression, had a devastating consequence for British industry and employment. Unable to borrow money to stay afloat, thousands of firms have gone into liquidation. Unemployment is now past the 3.25 million mark and is still rising, although less swiftly. Real incomes have fallen, as wage awards fail to keep pace with price increases. After three and a half years of unremitting efforts, public sector spending has at last been brought under some kind of control, but it is idle to deny that this has produced very unpleasant consequences in housing, health, education and other public services.

### **Consistent Policies**

On the other hand, there have been substantial gains, which in the longer run

will prove more important. More than one and a half million jobs have been lost since the Conservatives took office. But how many of these were phoney jobs in the first place? In the 1970s Britain had the most heavily over-manned industry west of the Iron Curtain, a fact reflected in her output per capita, which was, for instance, only about half that of West Germany, even when almost an identical industrial plant was in use. Over-manning in Britain is now in rapid decline. In the private sector at least firms have been faced with the inescapable fact that they simply cannot stay in business unless they treat labour as a precious and very expensive commodity; so they have shed it. As a result, productivity is rising. This in itself is a striking phenomenon, because during a depression, it is usual for productivity to fall. In Britain during the last two years, it has risen faster than at any other time since the war, and much faster than any of our industrial competitors. More important, because of its psychological importance, is the fact that inflation is now in rapid decline. It is now only 6½ per cent and is expected to fall to 5 per cent or less, by the early Spring. This brings Britain near the bottom of the inflation league, alongside Japan and West Germany, and there is now a serious prospect of reaching something like a nil inflation rate within the next year or two. The effect on the nation has already been profound. Groups of workers now accept the argument that wage inflation destroys jobs and are settling for increases well below the current inflation rate, or even no increases at all. The British people are recovering from inflation panic. They are switching their money from fixed assets — houses, artworks, gold, valuables and so on — into industrial shares and bonds. They are recovering their faith in money

and in productive long-term investment.

Amid these signs of a return to economic reason and health, perhaps the most reassuring factor of all has been the sheer consistency of the Government and the will that has sustained it in the face of every kind of pressure to take the easy way out. I believe that consistency is the quality businessmen most value in Government. They can adapt to almost any kind of Government philosophy provided it does not change every five minutes. We now have a Government half way through its fourth year which has not changed its basic economic approach at all. That is unique in modern British industrial history and it is having an effect on business confidence and planning. Businessmen now no longer believe that the Government will be blown off course. They are becoming less cynical and they are beginning to trust Government statements of their long-term intentions. That again means a more fruitful relationship between business and the state.

### **A Climate of Appreciation**

Next to Government consistency, what business needs most to work effectively is what I call a climate of appreciation. Businessmen need to feel that the philosophy of the state sees their activities as socially valuable, and operates accordingly. In the Sixties and still more in the Seventies, British business had to survive in a climate of distrust. Indeed, in the years 1974 to 1979 the industrial legislation enacted by Parliament, such as the Employment Protection Act of 1975, treated businessmen as enemies of society and privately-owned industry as quasi-criminal activity. Property was a form of theft. Profits were a symptom, not of efficiency, but of social immorality. All

private employment was exploitation. A businessman was guilty until he proved himself innocent. Trades unions were presented not as aggressive sectional interests and labour monopolies — which they are — but as a kind of moral police force to keep down the inherent delinquency of businessmen. The public was taught to see private enterprise as an abnormal and suspect form of activity. The public sector was treated as the norm, and ultimately as the whole.

### **Redressing the Balance**

The Thatcher Government has set about transforming this hostile climate. Its first policy is to redress the balance of trades union power. I must say, on this point, they took their time about it. Mrs. Thatcher's first Secretary of State for Employment, Jim Prior, was the cabinet's leading Wet, a relic of the old Heath regime, who adopted what he called a softly, softly approach. It was so soft, it was almost inaudible. His Employment Act (1980) defines certain strikes, essentially those which are political in nature and unrelated to the pay and conditions of the workers concerned, as unlawful and therefore as Torts in law — not illegal, that is criminal acts entailing prosecution, but unlawful, meaning the parties who suffer or fear damage can take civil action in the courts. But the Act permits such proceedings not against the unions themselves and their funds, but only against named union officers, and their private resources. As such, it was ineffective. Last August, the Fleet Street mechanical unions threatened to stop the national newspapers in support of a pay claim by the health workers. This strike, under the new Act was unlawful. The newspapers went to the courts and got an injunction declaring the strike unlawful,

and forbidding the unions to carry it out. One of them failed to comply. The one-day strike took place. It cost the newspapers £2,000,000. The union leader concerned was cited for contempt of court, convicted and fined £350, which was promptly paid by his friends. The absurd disparity in the sums involved demonstrated the weakness of the Act, and when the unions staged another one-day strike in September, the newspapers didn't even bother to invoke the law.

But if the Thatcher Government makes mistakes, it learns from them. It has the virtue of persistence. Prior's successor at Employment, Norman Tebbit, is a hard man, not a Wet. His Employment Act (1982) which came into force in November, is a much tougher measure. It includes important provisions designed to erode the closed shop. For the first time an employee unfairly dismissed for refusing to join a closed shop can sue not only the employer, but the union too; and closed shops to be lawful, must be periodically approved by a substantial majority of the workforce. More important, however, is the provision which allows anyone threatened or damaged by a strike defined as unlawful, to take civil action not only against named officials, but against the union itself. Union funds can now be in jeopardy to the extent of £250,000 in the case of the largest unions, and £12,000 even in the case of the smallest. So it is now worthwhile for firms or private individuals to sue for damages in the event of unlawful strikes. Equally important, the unions themselves are now once more brought back into the orbit of the law of civil damages. It should be possible to build on this to make unions liable to damages for breach of contract too. So I have good long-term hopes for

the Thatcher Government, because it has this quality of persistence, consistency and resolution. There is a third Trades Union Bill in the pipeline and I hope a fourth one after that. Gradually, we will bring the unions back within the control of society.

These qualities of consistency and resolution on the part of the Government were enormously exemplified and enhanced during the Falklands conflict. For the British people the Falklands was an important political, emotional and educational experience.

### **The Falkland's Experience**

The Falklands operation provided a good deal of hard evidence that there is nothing fundamentally wrong with the British people, given firm leadership. But that is a big qualification, is it not? The Suez operation, if you remember, collapsed for a variety of reasons but one of the most important was the calamitous plunge of the pound sterling on the exchanges. That, in my opinion, is what finally sank it. It is very significant indeed that, after three years of the Thatcher Government with its stress on the paramountcy of sound money and its adamant refusal to be stampeded by high unemployment into reflation, after three years of very courageous financial rectitude, the pound held steady throughout the Falklands operation, despite its inevitable cost and despite the real risks of a catastrophe. Not for one moment did Mrs. Thatcher have to worry about the exchanges. That was a tribute to the quality of her leadership, not just during the war itself, but in the three years preceding it. A sound currency which can survive such a dramatic experience without a tremor is a very valuable

possession for any nation to have. It is something we in Britain have not had for many years and we are very lucky to have it now.

The Falklands war was an important episode but it was, in the end, only an episode, which may not leave a deep mark on the course of history. The so-called Falklands factor in British politics may be fading and soon have little impact. But what was important about the Falklands was not what it did but what it illustrated. The Falklands affair, which would have been a complete disaster without the leadership Mrs. Thatcher provided, altered the British people, brought home to the British people, how important such qualities as leadership, resolution and consistency are, in the handling of the nation as a whole and in particular of the handling of the economy during a world crisis. That was why her credit and the credit of her government rose sharply and has remained high since. The British people began to see that the kind of courage and follow-through, the refusal to take the easy way out, that she showed over the war applied equally well to the battle with recession. It illuminated her whole style of government. It showed that there had been a fundamental change at the top in Britain, that a line had been firmly drawn under a long and undistinguished and vacillating period in our history and that a new phase had opened. Hence we are confronted there, not with a mere episode, not with an ephemeral factor, but with an important change in national vision and attitudes. In this sense the Falklands was a very important event.

What has been demonstrated, I think, and what the world is learning, is that much of the conventional wisdom of

recent years — the conventional wisdom I would say of the 1960s — does not stand up to the test of experience. The lessons that we have learned in Britain, and that the world, I think, is learning — and certainly ought to learn — are fairly old-fashioned ones. In the long run no nation can consume more than it earns and this applies equally to third world spendthrifts as to the wealthiest, to the East as to the West, and to the North as well as the South. Keynes and Galbraith and the Brandt Commission and all the others cannot abolish the laws of simple arithmetic, which in the end determine wealth and prosperity and the living standards of all nations, rich and poor.

Second, in a hostile and unregenerate world, the democratic powers, the powers which live by the rule of law, must accept the fact that to preserve that law, they must be willing to defend it. They must at all times and in all theatres possess the means to defend it effectively. Threats to that law may and will come from a giant predatory power and smaller predatory

powers. The principle is the same. We must possess the means to deter and if necessary defeat those predatory powers, both large and small. We must be seen to possess those means, and we must be believed when we say we will, as a last resort, use them.

### **Courage and Judgement**

And finally, in demonstrating these age-old truths, there is no substitute for good leadership. The essential hallmarks of that leadership are twofold: judgement in the reading of human nature, both of our own people and those who are enemies, and courage in following that judgement decisively and consistently. Courage and judgement: one is no good without the other, but together they are an irresistible combination. So far as Britain is concerned, we have rediscovered over the last few years the value of leadership based on courage and judgement. It is a lesson we intend to take to heart ourselves and which we will willingly impart to the rest of the world.

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# **BIG GOVERNMENT AND THE EROSION OF COMMUNITY STANDARDS**

**There has been some dramatic evidence of a decline in civic morality. The President of the Institute of Public Affairs Mr. J. S. Balderstone argues that this decline is associated with the growth of Government. \***

★ ★ ★ ★

At last year's Annual Meeting I spoke of the erosion of traditional community standards in our society.

The ceaseless revelations about corruption in recent months have certainly provided some dramatic evidence of a decline in civic morality.

Tax avoidance schemes, the cash economy, union thuggery, medibank frauds, welfare abuses, the meat substitution racket and so on have been the substance of newspaper headlines for months.

Most of these examples involve fraud and abuses of the public purse.

In view of all this, it is hardly surprising to find claims being made that our society is experiencing a moral and spiritual decline: that the race for material advantage is overwhelming standards of fair dealing between citizens and traditional standards of honesty.

Sir Alan Walker has suggested that these trends are associated with the decline of religious belief. Michael Barnard of "The Age" points to the spread of permissive views and values. John Hyde, the leading 'dry' in the Government, writes that taxpayers are in revolt against the sheer waste and abuse of public funds which are occurring.

There may be no definitive answer; but it seems to us in the Institute that a major root cause is in danger of being overlooked.

Indeed, it is no coincidence that the erosion of community standards has occurred conjointly with the growth of Government.

One of the features of "Big Government" is that it creates enormous incentives for individuals to exploit 'the system' whether in their role as taxpayers, or as receivers of public funds such as doctors, lawyers, public servants, politicians, pensioners or other welfare beneficiaries.

**Take the average taxpayer!**

Those on moderate incomes are now facing levels of taxation which would have been regarded as outrageous during the growth decade of the 'sixties. In 1965 the taxpayer on average earnings was contributing some

\*Text of the President's address at the IPA Annual Meeting — November 9 1982.

14 per cent of his income to the public purse; today the figure is 24 per cent and the steep increases in tax that have taken place have made people acutely conscious of the drain on their earnings.

This, incidentally, is one of the reasons behind the demands from all sections of society for yearly additions to their incomes which can only be grossly inflationary and which seriously weaken the economy.

When the cost of government is so large and the tax burden so onerous, when the money advantages of avoiding or evading tax are so considerable, inevitably those taxpayers who place their own interests well before their duties as citizens have been attracted to ways of escaping their legal responsibilities.

In this regard the IPA would like to commend the strong leadership that the Prime Minister has given in his condemnation of flagrant tax avoidance. No one doubts the complexity of this issue and it is to be expected that it will give rise to continuing debate. There can be no doubt however that where significant sections of the community are able to avoid paying their proper share of the cost of government we as a society are in deep trouble.

If the revenue-gathering processes of Government are open to abuse, the same applies to government spending programmes.

Indeed, the money advantages of not declaring an income, of over-servicing in government programmes and so on, are so substantial that many individuals are unable to resist the temptation.

Of course these abuses should not occur.

All of them, from artificial tax avoidance schemes to the cash economy, to over-servicing, to welfare frauds, place burdens, and increasingly heavy burdens, on other people — on our fellow citizens. They in turn lose faith in the justice of the system under which they live.

The inevitable response to the corruption and abuse which grow with "Big Government" is to bring down harsh laws and beef up enforcement bodies. In earlier times these actions would have been regarded as a threat to individual liberties.

Retrospective laws, bureaucratic monitoring of the activities of the medical profession, increased computer and field officer checks on welfare recipients, are now accepted as part of the price we pay for "Big Government". Yet like the abuses and frauds themselves, they also cause people to resent the system under which they live.

By making people less responsible, "Big Government" hardly surprisingly, has tended to make them irresponsible — and, at the same time, increasingly resentful.

We have created a society in which advancement often depends less on individual effort and enterprise and more on exploiting the tax system and the mass of government programmes.

The tragedy of the present situation is that it has arisen, in part, from well-meaning policies designed to help those people in the community in real need. The health and welfare reforms fall into this category, as do improved benefits for workers' compensation and for retirement.

But the cost of many Government programmes should be seen not only in terms of money but also in the erosion of community morality and the continuous expansion of police powers of government to check the inevitable abuses.

A famous American judge, Mr. Justice Brandeis, said some fifty years ago, "The greatest danger to liberty lurks in the insidious encroachment by men of zeal, well-meaning, but without understanding."

No one denies that 'rip-offs' can occur in the private sector.

But the fact remains that where the main road to material well-being is through the market, self-interest is usually effectively channelled into serving other people. Unless a needed and efficient service is given, the provider of the service cannot eventually profit.

Where wealth is distributed through government institutions, material improvement, as we have seen starkly demonstrated in recent months, can be achieved by those prepared to exploit the system to the detriment of the many who don't.

The massive diversion of resources through government, the increase in so-called social legislation, have meant that the powerful force of self-interest has many new avenues to pursue and success in that pursuit is less likely to result in the public interest being served.

Because government programmes necessarily lack many of the market disciplines, "Big Government", to work at all, must be buttressed by a strong sense of community and social responsibility.

Yet "Big Government" is itself a major discouragement to the re-assertion of those values.

"Big Government" has long been perceived as the enemy of economic efficiency and prosperity.

But almost every day now we are seeing evidence that "Big Government" is also the enemy of decent community values and standards.

Even if there is — as there has to be — a strong re-assertion of responsibility to the wider community, it is unreal to expect that the



inherently corrosive effects of "Big Government" can be overcome.

The I.P.A. will continue to work for, in the words of the Prime Minister, "the historic turn-around in the size of government".

## **PROFITS AND EMPLOYMENT**

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## ECONOMICS AND THE PULPIT

Some Church organisations have become vocal proponents of dubious economic theories, half-baked sociological speculations and debatable political strategies, according to the Reverend Dr. John Williams. A Minister in the Uniting Church, the Reverend Williams has published numerous articles dealing with theological, economic, and educational themes.

★ ★ ★ ★

In the eighteenth century, Samuel Johnson, writing of his mother's attitude to business, stated, "Of business she had no conception; therefore her discourse was composed only of complaint, fear, and suspicion."

A similar claim could be made, sad to say, of many mainstream churches, organisations, and preachers. A perusal of ecclesiastical statements addressing politically and economically specific policies and programmes, and a 'sampling' of not a few sermons, result in one wondering from whence clergymen as such derive their quite remarkable expertise to comprehend, let alone solve, the admittedly painful economic and political problems facing Australia and, indeed, most western democracies.

As a clergyman enjoying two years leave of absence during which I am attempting to write a volume examining the relationships between economic and individual liberty and Judaeo-Christian values and teachings, I have listened to many sermons. Many were admirable. Many were anything but admirable. A recent address through which I squirmed my way informed me, for example, that I should be striving for an economic system which put "people before profits" and embraced "co-operation rather than competition". Whilst the preacher studiously avoided stating that such emphasis implied embracing some form of socialism, it was made patently clear that, in conscience, I could not accept an essentially free-market economy.

Supplementing this particular sermon with materials produced by my denomination's Division of Social Justice and resolutions passed by that denomination's Synod, I find I am also, allegedly, an advocate of zero economic growth, an agitator for increased welfare benefits; a dedicated opponent not simply of nuclear energy but centralised energy development as such, a devotee of higher marginal taxation levels, and — of course — an enemy of that most evil of realities, the 'multinational corporation'.

My sole comfort is that, given my denomination's sympathy for

powerless minorities and endangered species I might, as a Clergyman who (a) believes in God, and (b) doubts the wisdom and beneficence of the Welfare State, be accorded a modest degree of protection.

Were such antagonism to the free market confined to church bodies, the old advice that businessmen should "keep a low profile", "maintain a dignified silence", and refuse to be drawn into debate, had point. Today such advice is a recipe for disaster. For such ignorance of and antagonism to the market is not unique to church circles.

- \* In 1981 the Media Institute, a Washington-based research organisation, analysed some two hundred of the most widely viewed television programmes in the U.S.A., many of which are telecast in Australia. "Sixty-seven percent (of businessmen) are portrayed in a negative manner: as criminals, fools or malevolent egotists. The heads of large corporations tend to be cast as out-and-out crooks, the lesser executives as mere miscreants, and small businessmen as dimwits."
- \* Herbert E. Meyer, associate editor of **Fortune** magazine, recently penned a volume entitled **The War Against Progress**. He soberly argues that, in the U.S.A., an "army of social activists is fighting to steer the U.S. towards a no-growth, let's-share-the-poverty future."
- \* The concept of "corporate responsibility" has become perfectly acceptable to many businessmen and most politicians. Sadly, it is the Ralph Naders of the world who are explaining what "corporate responsibility" means. It means (a) increasing governmental regulation of business, (b) the appointment to company boards of "one environmentalist, one consumer, one shareholder, and one member of the town or city where the company operates," and (c) government control of a company's profits so that, in Nader's words, "the victims of corporations" — i.e. ordinary consumers — "will not be 'ripped off'".
- \* The majority of the public regard 'big business' as fair game. A study by the U.S. Opinion Research Corporation revealed that the majority of the U.S. public estimate that the after-tax profit on sales by U.S. manufacturers is 33%. University graduates put the figure at 45%. In Australia, the Clemenger Report 1980 revealed that 49% of the public believed that the after-tax profit on each 'company dollar' is 20% or more. (The figure varies widely in different industries: the average figure is about 4 percent — a slight difference!) The majority believe company taxes should be 'higher'. I have no doubt not a few politicians share this belief.

A note of realism — and, indeed, of warning — must be sounded. If it is not sounded by businessmen then it is not clear who will sound it. A few 'slogans' need patient dissection.

#### **"People before profits"**

A manufacturer who produced goods people do not value is not going to earn 'profits', be they "mammoth" or otherwise. Again, profits signal the efficient allocation of resources: equipment, raw materials, and labour. The first person who thought, for example, of manufacturing plastic bags for the disposal of garbage had first to ask what alternative goods and services consumers would forgo to purchase such bags. A paperback novel? Unlikely. A packet of cigarettes? Improbable. An ice-cream? Maybe. If and only if the manufacturer can produce bags which can be sold at that price, yet simultaneously utilises resources below that price, can he register a 'profit'. The use of the same resources to produce something consumers do not value would register a 'loss'.

#### **"Co-operation before competition"**

Within the framework of a market, competition is involved — namely, competition to satisfy, most adequately, the needs and desires of consumers. Co-operation is also involved. Listing the thousands of separate skills going into the manufacture of, say, a typewriter ribbon is a daunting exercise. Locating, mining, and refining the metals making up the spool; producing the 'ribbon'; manufacturing the 'ink' impregnating the ribbon; transporting the raw or semi-completed components to the factory; completing the finished product; and ensuring that stationary stores have the appropriately labelled ribbon on the shelves is an unbelievably complex, co-operative endeavour. Add to the diverse skills therein embodied, the skills involved in manufacturing mining equipment, ships and trucks, et al without which the finished product could not have been created, and co-operation is the essence of the exercise. Indeed, the alternative to the competitive drive to satisfy fickle consumers, and the co-operation network of skills and information defying listing or synthesis, is (a) coercion, and (b) a notorious failure to provide consumer goods.

#### **Distributive Justice**

Church bodies are given to deliberating long as to how goods are most justly distributed. Unfortunately, goods which have not been produced are not there to be distributed! An 'ethics of production' must accompany an 'ethics of distribution'. And here the much maligned record of the free market is impressive. Following the slow decay of the political economy of mercantilism, the industrial revolution, and the emergence of a market economy, nineteenth century England was

transformed. A sixteenfold increase in goods and services available transformed the very nature of poverty.

What is so admirable that the thirty percent of the Russian work-force involved in agriculture cannot feed a nation which once exported grain, whereas the four percent of the U.S. workforce involved in agriculture feed an entire nation and a great deal of the rest of the world as well? What is so desirable that a number of African States which once enjoyed thriving agricultural bases, listened to western 'intellectuals', collectivised — in the name of 'agrarian reform' — agriculture, and are now dependent upon foreign aid for the most basic of food stuffs?

Is it true, as many western intellectuals and churchmen assume, that the poverty of many developing nations was and is caused by colonial exploitation? If so, why is it that Third World nations which enjoyed maximum contact with the West boast thriving economies whereas the poorest of nations — for example Nepal, Afghanistan, and Liberia — were never colonies? Is it not significant that most Latin American nations inherited an aristocratic system of property rights (which also obtained in the colonising powers of Spain and Portugal, two of the least developed of West European nations) which effectively curtailed the emergence of the free market in a free society as described in 1776 by Adam Smith in his *An Inquiry into the Nature and Causes of the Wealth of Nations* and summarised in his "liberal plan of equality, liberty, and justice"?

### Some questions

I do not believe that churchmen as churchmen enjoy privileged access to correct answers to many difficult economic questions. I submit, however, that churchmen — indeed all men and women of goodwill — might do well to ask some questions which, to date, have been conspicuous by their absence from ecclesiastical agendas.

What are the effects of minimum wage laws for the least skilled of the community? Is it true that, when governments engage in substantial transfers of wealth, they are inexorably led to transfer such wealth from 'information-poor' individuals to 'information-rich' special interest and lobby groups? When burgeoning bureaucracies substitute rules and regulations for the reward of 'profit' and the sting of 'loss', is their growth, and the absorption of more resources than necessary for what they produce, inevitable? Does occupational licensing (say the payment of some \$40,000 to license, in Canberra, a taxi) benefit consumers or established taxi-owners? What evidence is there that alternative economic and political structures to those characterising a market economy in a free society lead to an increase in human happiness? Is the black, ghetto-born economist, Professor Walter Williams, correct in

concluding that the bulk of money spent in the U.S.A. to fight 'poverty' in truth benefits bureaucrats and professionals charged with "caring for the poor" — a procedure not unlike "feeding sparrows through horses...(which is) a most desirable way of feeding sparrows from the horses' point of view"?

Is 'wealth' — goods and services — something static, as the so-called mercantilists of the seventeenth and eighteenth centuries insisted and many Marxists today still insist, or can wealth be created? If it **can** be created, is it not folly to assume that an increase in the wealth of one person or nation must be achieved at the expense of another person or nation?

These questions are not theological or religious questions. Church bodies do not, by virtue of their training, possess any expertise to answer them. Yet a refusal even to consider such questions, let alone answering them in the negative by advocating, in the name of the church, economic policies and programmes which sidestep such questions, is, surely, the height of irresponsibility.

Is there not something ironic that, in applauding the Cain Government Budget, not a few clergymen have lauded its 'humanity' but said nothing about a 17.5% increase in payments to 'public sector' employees? Is it not equally ironic that it was not a clergyman, but an economist, who perceived the moral dimension of inflation, likened it to the widespread disrespect for person and property cursing our society? Wrote Wilhelm Ropke:

"In fact, laxity about property and laxity about money are very closely bound up together; in both cases what is firm, durable, earned, secured, and designed for continuity gives place to what is fragile, fugitive, fleeting, unsure, and ephemeral. That is not the kind of foundation on which the free society can long remain standing."

Members of a chess club would, understandably, let their membership lapse if, instead of focussing upon chess, the club initiated a series of lectures on somewhat suspect economic theory. It is not perhaps surprising that many mainstream churches, substituting half-baked sociological speculations, dubious economic theories, and debatable political strategies, for the celebration, exposition, and interpretation of a religious vision of the 'good life', are witnessing a slow but steady pilgrimage of members to other sources of inspiration, challenge, and hope.

# TODAY'S NEEDS IN EDUCATION

**How does a country stop adding to the pool of "wasted talent and half-lived lives"? Professor Leonie Kramer, Chairman of the Australian Broadcasting Commission, analyses some of the problems in our education system and outlines proposals for reform.\***

★ ★ ★

In the last of his Boyer lectures for 1982, Sir Bruce Williams stressed the importance of programs of research and development in assisting our adjustment to technological change; and of education, not just in preparing young people for living with technology, but also for a future in which, for a variety of reasons, working hours will be shorter. I have not seen the script of this lecture, and so cannot quote exactly from it. But Sir Bruce made the point that far too many young Australians leave school at the age when they are least employable, and do not go on to tertiary education of any kind; and that at least one reason why this is so is that they do not like school, and are not motivated to undertake further study. He also mentioned, without amplifying the point, the need to revise educational programs in order to meet the needs of a society in which there will continue to be technological change.

The participation rate of school-leavers in tertiary education in Australia is one of the lowest in the developed countries, and is continuing to decline. At a time of high youth unemployment one might expect the rate to rise; that is to say, one might expect that young people, instead of leaving school and going on the dole, would move to a college of advanced education or a university, spend 3 or 4 years in further study and thereby increase their chances of employment. For although there is graduate unemployment, it is far below the level of those young people who leave school at 15; and while young graduates do not immediately, or perhaps at all, find the jobs they want, or consider appropriate to their qualifications, they are in far less danger than the unqualified. On the other hand, there has been a decline in the possible future earnings of graduates.

Some summarised figures might help to focus attention on the problem. In the 15-19 age in the period 1966-1971, 2 per cent were unemployed; by 1976 the figure was 8 per cent; the most substantial increase was from 3 per cent in 1974 to 8 per cent in 1975. In 1977 the figure was 11 per cent, declining to 10 per cent for 1978-80 and to 8 per cent in 1981. (The contribution to unemployment of people seeking part-time work is a significant factor).

At the same time (i.e. from 1976 to 1981) the participation rates of 17

\*From the text of an address to the Annual Meeting of the Institute of Public Affairs.

to 19 year olds in full-time higher education have been declining, both in colleges of advanced education and in universities. One further trend of interest shown, in Queensland data, is that between 1977 and 1981 there has been a decline in the proportion of 'more able' students who proceed directly from school to university or CAE; while the direct transfer rates for those of very high ability are over 85 per cent. (There was a slight increase for more able students in 1981).

With these figures as a background, is it possible to find any explanations or solutions for a situation which should be of great concern to the future of this country? Once one leaves figures, one is bound to be to some extent speculative; and the suggestions I am about to make are open, as all suggestions must be, to debate. In spite of the fact that youth unemployment is significantly lower among those with tertiary qualifications than among those without, there is a widespread belief to the contrary. But there are other factors which might be even more important. It seems to me that Australians, by comparison with Americans, for example, no longer value higher education for its own sake. (I say 'no longer' because the history of the foundation of schools and universities in this country is a story of faith in the power of education to improve, not just material circumstances, but personal satisfaction).

As evidence of this view I would point to the prevalence of very narrow notions of what tertiary education might lead to. There is a need for qualified people in all areas — business, industry, the public service and the media; but it is also necessary to be flexible in our attitudes to the possible consequences, as distinct from the particular purposes of tertiary education. Law graduates do not have to become solicitors or barristers; or arts graduates teachers or librarians. A sound intellectual training in any field has wide applications. In turn, employers need to be persuaded of the importance of graduate recruitment, especially in the media, which have such influence on opinions and attitudes throughout the community.

I turn now to secondary education, the quality of which will influence both the motivation and achievement of young people in higher education. And at the present time it seems to me that secondary education, at the level of policy and practice, is in a state of alarming confusion. Employers continue to complain that young people applying for jobs are frequently neither literate nor numerate.

At the same time there continue to be criticisms of the HSC examination, invariably from people who owe their present position to the system they seek to abolish. That there are problems with the administration of examinations I do not deny; but that the abolition of a



final test of students' achievement would lead to an improvement in educational standards has not been demonstrated. The effect of unremitting criticism of the examination's usefulness and fairness is not likely to increase students' confidence in the value of proceeding to it or beyond it.

There are other problems. The basic training of students in literacy, numeracy, logical thinking, general knowledge, and the arts is far from adequate. For students in the final years of secondary schooling who do not wish to proceed immediately to tertiary study, or who are not seeking specialised courses, there is inadequate choice of educational programs.

The need for specific educational reforms is, it seems to me, even more urgent now than it was a decade ago, and I can do little more than catalogue the most important. These are:

1. **The improvement of teacher education and training.** There is no more important profession than teaching, and none is easier to enter. Teaching is also a vocation, as every profession should be; and one in which the relationship between teacher and student is of quite exceptional delicacy, since a large part of the teacher's influence is exercised through example. Teachers have the guardianship of young people at the very time when they naturally begin to question their parents' ideas and ways. The behaviour of teachers is just as influential as their teaching skill.

Most teachers' unions, though they pay lip service to educational standards, are at present preoccupied with political grandstanding and obsessed with the notion that money solves all educational problems. I agree with the N.S.W. Minister for Education, Mr. Mulock, that "industrial action by teachers and the threat of it has contributed to some unknown, incalculable extent, to the trend away from Government schools in N.S.W."

Training institutions need to be much more selective in their entrance requirements, and much more rigorous in their demands on students.

More teaching practice and the weeding out of students who show little aptitude for the profession are obvious needs.

2. **Curriculum reform.** The former President of the N.S.W. Teachers' Federation, Mr. Barry Manefield, has said:

"The story of curriculum development over the past 15 years is a disaster. School-based curriculum development is an educational catastrophe and the sooner we put an end to the nonsense which has been perpetrated in its guise over the past dozen years or so the better.

Teachers don't have the training, expertise or time to develop school-based curriculum and it is not their role to do so. Curriculum should be developed centrally where people with training, expertise and time can be allocated to the task. Teachers and parents should be placed on the curriculum development bodies to ensure that the experts keep their feet on the ground and do not get carried away on flights of fancy or fads of change."

3. We must try to answer the question that was posed several years ago by the Dean of the Faculty of Arts and Science at Harvard — Henry Rosovsky — when he was instituting curriculum reform — **What is an educated person?**

To answer this question fully is a lengthy and complex task, and I attempt it here briefly with special reference to Australia's needs today, for these needs are identical with some of the major deficiencies in our educational systems.

- (a) Command of our own language and a real knowledge of a foreign language, so that we can begin to understand what it is to belong to a different cultural tradition. (This need has, in my view, nothing to do with the largely abstract rhetoric of multicultural theory).
- (b) Training in logical thinking and expression which is, of course, inseparable from thorough language learning.
- (c) Historical and general knowledge, so that we understand and value our own past, and our place in the world.
- (d) Appreciation of the arts, and encouragement to seek the pleasure of performance, or making or study of them, instead of the passive acceptance of television entertainment, much of which is mediocre.
- (e) Sensitivity, perhaps chiefly by example, to other peoples' needs and interests; and instruction in the duties and responsibilities of citizenship.

To achieve any of these objectives demands firm action on the part of policy-makers, academics, teacher educators, school principals and teachers themselves.

Parents too, must try to understand that their interest and encouragement is crucial to their child's educational future.

I wish I could say that I see signs that this purposeful co-operation is likely to break out. But I am sure that if it does not, we will continue year by year to add to the already large pool of wasted talent and half-lived lives.

# FRANCE: THE COLLAPSE OF THE MITTERRAND EXPERIMENT

Could Australia reflate out of the recession? The French Government attempted such a strategy. The experiment lasted less than a year and a half. Paris-based economist, Otto von Fieandt, looks at the results of the Mitterrand Experiment and the policy reversals which have taken place.

★ ★ ★ ★

Imagine that the Australian Government required imported Japanese video-recorders to be shipped to Alice Springs, to be customs cleared there and nowhere else. Assume the customs post to have only four employees, and to be lacking electronic machinery for processing statistics and making calculations. These have to be made in long-hand and by quill pen.

This has now happened in France. For Alice Springs substitute Poitiers, a smallish town in the centre of the country, where the customs office is exactly as described. An official there was quoted as saying that the object of the exercise is, of course, to muddle up the administrative process, to let imports pile up, especially, he added, with the Christmas season now approaching. Reporters were struck by the absence of parking facilities near the customs post, and predicted a high rate of theft.

This type of action is a visible manifestation of the bankruptcy of Socialist economic policies in France. As will be argued below, the less visible disasters are far greater than the immediately visible deficit on foreign trade. But let us go back to the dawn of the Socialist dream in this beautiful country, May 10, 1981.

Francois Mitterrand was elected President, and a month later the people gave him a Parliament made of his own rib. And the French did not buy a pig in the poke. Mr. Mitterrand had a programme, he said, would implement it, and by God he did. The Mitterrand programme, embodied in "110 Presidential propositions", was a peculiar mixture of Marx and Keynes. But it wasn't dreamy. It was hard and numerate, and was available on every bookstall.

Mitterrand proposed runaway expansion, or reflation if you will. Expand the economy, starting by stimulating private consumption expenditures. Do the latter by every means available, raise wages by decree, increase transfer payments (mainly family allowances) by 20% in an economy that is not growing. Finance this through a budget deficit. Introduce a budget in September, 1981, for calendar 1982 in which the

bottom line (total expenditure) goes up by 27%. This in an economy with no growth and a recent inflation rate of 12%.

If the government wanted wage-push, it certainly got it. From May 1981 to September 1982, the minimum wage rose by 29%. The Prime Minister, to this day, is actually proud of this, and points out that consumer prices have risen by "only" 15.8%. So the "real" increase works out at 11.4% for the period, or an annual rate of 8.4%.

Now if creating 8.4% annual growth from an economy that isn't growing can be done, then we'd all be Socialists.

In 1977, I did a "trial run" of the French economy on the assumption that the Left would come to power in the Parliamentary elections of March, 1978. (I was right on the event, but out on the timing by three years). My analysis was based on existing national accounts and other statistics and the Left's declared programme. My conclusions remain singularly valid today: a policy of reflation aiming at fast growth and declining unemployment cannot work. An unsustainable trade deficit is one reason, but not the only one, or even the most important one. The main reason is that corporate profit and loss accounts are so shattered as to severely depress fixed investment. Thus in the end, domestic production for home consumption and investment do not materialize. Growth remains minimal, and although wage incomes receive a temporary boost, this must soon be followed by retrenchment as corporate balance sheets are restored. Real wages will fall or at best stagnate.

Let us see in more detail what happened after June 1981. As noted, minimum wages and family allowances were jacked up by some 20%, while total government spending was budgeted to rise by 27%. Anywhere outside Latin America, this is reflation on a massive scale.

The results are visible in the accompanying table:

	1981	1982 (est.)	1983 (f'cst.)
<b>1. Getting and Spending (% growth)</b>			
Real GDP .....	0.2	1.0	0.5
Consumer spending, real .....	1	2.9	1.2
Consumer prices .....	14	12	9.8
Real wage incomes, after tax .....	1.1	-0.4	-1.7
Real disposable income .....	1.9	2.1	0.7
Transfer payments, real .....	4.5	7	5
— at current prices .....	19	20	15
<b>2. Coping with the World: Foreign Trade</b>			
Merchandise exports, vol. gr. % .....	4.6	-3.5	2.2
Merchandise imports, vol. gr. % .....	-1.5	3.5	-0.3
Trade balance, FF billions .....	-56	-100	-84
Current Account, FF billions .....	-41	-90	-70
as % of GDP .....	1.5	2.9	2.1

### 3. Government Deficit: Within Bounds

Deficit, FF. billions .....	81	110	118
as % of GDP .....	3	3.6	3.2

### 4. Investment: Declining

Gross Fixed Investment, vol. gr. % .....	0	-1.9	-1.3
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### 5. Fighting Unemployment

Unemployment, % of labour force .....	7.8	8.9	10
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Sources: BIPE (Bureau d'information et de prévisions économiques); *L'Express*, 5 November 1982 *La Vie Française*, 25 October 1982. Minor revisions by the author.

Real GDP has stagnated. On a month-to-month basis there was a tiny consumer boom lasting a few months late last year, accounting for much of the growth in consumer spending in 1981 and providing some carry-over into 1982. However, just how badly the consumer was served by the Socialists' policies can also be seen from the table: with unemployment very high, the government was forced to raise taxes to pay for benefits, so that real wages after taxes seem actually to fall somewhat this year, and to fall appreciably next year. If real disposable income is holding its own, it is only because of vastly increased transfer payments, up by a cumulative 17% in three years in volume (64% in current francs).

In short, the Government gambled on rapid growth resulting from a massive injection of purchasing power. Before the event, the reflation seemed, to the Socialists, not to be particularly frightening, because they were thinking in terms of 3% to 4% GDP growth in a stagnating world economy. (As to the foreign balance, they clearly hadn't done their sums). In 1977, in their bid for power, they blithely talked of 6% growth at a time the economy was growing at 3%.

This brings us back to the corporate account. It is far less visible than the foreign trade account, which is published monthly and widely commented upon. Corporate cash flows and profits on a macro basis are published only once a year in France, with a long time-lag and considerable doubts as to their accuracy.

However, French cash flows are believed to be extremely depressed. This can be seen in Section 4 of our table. Private sector investment must be falling at an even faster rate than total investment, given the government's effort to speed it in the nationalized sector. Falling investment is thus offsetting, in part, whatever growth the consumer is providing.

But that is not all. As the foreign trade accounts show only too clearly, much of consumer demand must be met by imports. In technical terms, domestic final demand is growing faster than domestic production, and

this leads to an increasing external deficit. By one estimate, in the first 15 months of the Socialist experiment domestic output rose by 2.1%, and consumption by 3.7%. The difference was imported. Exports, on the other hand, have done remarkably badly, despite two devaluations totalling 18% against the German mark and much more against the U.S. dollar. The reasons are not entirely clear, but it is notable that France has been relying excessively on the Less Developed Countries for its exports. No less than 38% of French exports go to the African and Caribbean/Latin American markets, versus 20% for Britain or Germany. Especially the African market may be a "soft" one in the sense that the old British Empire was a soft market for British exporters. It made life easy for the British, but it did not provide for much growth. At any rate, it is French trade with the European Common Market that is largely responsible for the widening trade deficit. German exporters are coining money in the French market — as long as they don't have to ship through Poitiers.

Thus, by mid-1982, the economy was in a bind. Partly this was because imports were flooding in while exports were not moving, but a more fundamental reason was the disastrous financial position of enterprises. They could not invest or hire people. We thus have two different disequilibria: an external deficit, and serious corporate financial difficulties. The latter arises from national income having been re-distributed away from profits and in favour of labour.

There remains a third major imbalance to be mentioned: the deficit of the Government budget. The preceding Government was running deficits of 30 billion francs, rising. In relation to GDP, France's deficit was among the world's smallest. We are now at nearly four times that figure, but on a GDP basis the figure is still relatively modest. We must in all honesty make this point, to balance off what is not an overwhelmingly favourable judgment on French economic policy. French fiscal policy is not irresponsible.

That, then, is the ranking order of the three disasters that have befallen France, just as we and many others expected. The first disaster to occur, and the most serious one, was the collapse of cash flows, and this is the main reason why growth did not materialize. Only in the second place do we find the much more visible and often-reported foreign trade deficit. In the last place we find the budget deficit, which has been rising fast, but is not yet at danger levels.

What of inflation? Most anti-Socialists, myself included, expected inflation to speed up, as wages were raised and the budget deficit widened. Devaluations would contribute to the process. Our table shows that this has not happened: inflation did increase modestly, from 12% to

14% in 1981, but thereafter we have it declining. Price controls are part of the answer. But the world context has changed radically. As Australians in particular must be aware, 12% inflation today is disastrous, when inflation rates are falling very fast in Germany, Japan, the U.S. and even Britain. France's inflation differential has widened, not narrowed. So if world inflation had not slowed, France's would presumably have accelerated, just as the doomsayers predicted.

A furious argument is now going on in France as to whether French policy has changed fundamentally since last June. At that time, a second devaluation was combined with a wage and price freeze for four months. (No preceding government, no matter how right-wing, has dared freeze wages). It is largely because of the freeze that our table shows a substantial slowing of inflation this year and next. Ministers, especially those whose commitment to ideology is as total as their ignorance of economics deny there is a policy change. Yet it is evident that the brakes have been slammed on hard. It is now officially admitted that labour's purchasing power is declining. This is now blamed on the outside world, especially the Americans. It is promised that the loss will be recovered next year.

A policy turn-around is also visible in the area of social security and health insurance. Its accounts are in heavy deficit but the first Socialist minister declared that she "refused to be the minister of accounts." She was replaced. The new minister not only can add, but is making a serious attempt to remedy the situation.

What of the future? In the next few years, all our three constraints are going to weigh on the economy. The government will have to practice austerity, because it has no alternative. The frightening thing about the Socialist experiment is this: it took only one year's spendthrift reflation to get the economy into a mess that will take years of austerity to sort out. And virtually no growth was achieved even within that year of reckless reflation. True minimum wage earners are a bit better off, while almost everyone else is worse off. But one doubts whether even the poorest will be better off five years from now.

There is no talk of taxing the rich or taxing the companies from now on. If anything, money must be given back to the corporate sector. Tax burdens must be lightened. Protectionism, import controls and occasional devaluations must be expected. Whatever GDP growth can be achieved must be applied primarily to reducing the external deficit. This leaves little room for increasing personal consumption. In sum, it is likely that living standards in France will rise less than they will in other countries. France in the next few years will be dismal, dull and grey.

# POLITICAL JOURNALISM AND PUBLIC DEBATE

In recent years the I.P.A. has published several articles expressing concern at the "quality" media's treatment of public affairs. In this article a Ph.D scholar from La Trobe University, Ken Baker, looks at some of the obligations of the major media in a modern democracy, and some aspects of modern journalism.

★ ★ ★ ★

Saturday, September 25, 1982 was the day of the Victorian Football League Grand Final. On the front page of the Melbourne "Age" was a cartoon, large enough and positioned well enough to command as much immediate attention as the headlines. In it, Prime Minister Fraser leads the Liberal/N.C.P. Cabinet onto the Melbourne Cricket Ground. Some Ministers are on crutches; Mr. Howard is in a wheelchair; Mr. Sinclair, looking malevolent, wields a chain; Mr. Nixon gestures vulgarly at the crowd; Mr. Fraser, arrogant and bullying, his hand in the umpire's face, barges through. The cartoon is illustrative of the harsh treatment that political leaders often receive in the press.

In a democracy a major role of the media is to bridge the gap between citizens and governments, a gap that without the media would increasingly widen. It is a role that carries with it the duty to inform citizens on matters of government in a manner that encourages a rational and morally sound consideration of the issues.

This is not to deny columnists the right to express their own opinions or philosophies. It is, however, to be hoped that commentators, particularly the leading commentators in the quality press, will write with balance and a sense of perspective.

We should not accept that everything is fair game in the reporting of news and selling of newspapers. Journalists, like all

citizens, have obligations to the democratic institutions on which they depend for their freedom. If they ignore these obligations they open themselves to the charge of merely pursuing their own personal and corporate ends.

Finally, if the quality of news reporting and commentary is not balanced, it is the quality of public debate, essential to the functioning of a vigorous democracy, that suffers.

The aim of this article is to examine some of the ways in which public affairs are reported in the press. The examples used are drawn from the pages of one of Australia's leading newspapers, the Melbourne "Age". Any conclusions about "The Age" based on the limited number of examples employed in this article would be unwarranted. References to selected commentaries from "The Age" are made simply to illustrate certain tendencies in modern journalism.

One of the issues to make front-page headlines in the few days prior to September 25 was the Prime Minister's criticism of one aspect of the Woodward Royal Commission into the meat substitution scandal. In the opinion of the Commissioner, the Minister, Mr. Nixon, did not deal with allegations of bribery and abuse of power in his department in a manner that was adequate and effective. On September 21 Mr. Fraser spoke for over an hour in Parliament defending in detail his decision to retain Mr. Nixon as



Minister for Primary Industry. The issue was complex and it is not possible here to give a detailed review of the arguments for and against Mr. Fraser's stand. On this issue as on most others, those who think seriously about politics are bound to have differing views. The purpose of raising the issue is not to take sides, but to analyse some examples of its presentation in the press.

### One-Sided Treatment

The over-riding image of Mr. Fraser that is projected in the cartoons and columns of "The Age" of Saturday September 25, examined in this article, is of an amoral opportunist. The headline of "The Legislators" column three days earlier, "Standards ignored as P.M. kicks the umpire", had set the theme. The column began:

"As far as is known, Malcolm Fraser has not yet publicly attacked motherhood. But in his defence of Primary Industry Minister, Peter Nixon yesterday he came perilously close."

Leading off the Saturday edition was Horner's portrayal of the Prime Minister as ruthlessly aggressive, (described at the beginning of this article). A few pages in there appears a caricature of Mr. Fraser as Ned Kelly, the outlaw. Geoffrey Barker's feature article drives the point home. It opens with the charge that in criticising Mr. Justice Woodward the Prime Minister had committed "an indefensible, extraordinary and quite reprehensible act of political opportunism".

The Prime Minister's disagreement with one finding of the Royal Commission according to Mr. Barker,

"can only be construed as an extremely personal attack on Mr. Justice Woodward's diligence,

competence, perhaps even his honesty."

Barker interprets the issue as,

"a tortured, meretricious exercise designed to resolve a political crisis at the expense of one of the country's most reputable judicial officers."

And Mr. Fraser is described as resembling

"a chained bear in a pit lunging at hordes of tormentors."

The use of such over-stated and one-sided imagery does little to help the reader arrive at a calmly considered reasonable assessment of the issues. At no point does the article consider the obvious question of whether a government is compelled to accept all the findings of a Royal Commission.

"The Age" printed a rejoinder to Geoffrey Barker's article by the Prime Minister on Wednesday, September 29, 1982.

Mr. Barker's article concludes with the claim that the actions of the Prime Minister breed cynicism and contempt for Australian parliamentary democracy. (In the same issue Michelle Grattan had mentioned an accusation by a member of Parliament of "facist tactics" made against the Prime Minister). As if this were not sufficient, there is, on the same page, Petty's cartoon to hammer the point once again. In it Mr. Fraser sits at a desk; before him lies his "code of ethics" — "Rule 1: Put the boot in; Rule 2: Hard". Behind him "The Constitution", "Westminster System", "Tax Laws" and "Royal Commissions" lie in shreds on the ground. In the background members of the Government brawl. It appears that the attack on Mr. Fraser had gone beyond the issue of the Nixon resignation — indeed beyond the bounds of fair and reasonable comment.

On Monday, September 27, 1982,

Michelle Grattan, "The Age's" chief political reporter, turned to Mr. Fraser's character, drawing on an article by Dr. Graham Little of Melbourne University. The headline promised an exposure of "Malcolm Fraser's Secret Fears".

### **The Focus on Personalities**

Inferences about a politician's underlying motives are easy to make and difficult to refute. For this reason they should be approached with caution. It is principally to his public record that we should look when appraising the worth of a politician. It is an unfortunate trend of modern journalism that the analysis of motives and personalities can obscure analysis of the substance of policies and issues.

Michelle Grattan argues that Dr. Little's article helps justify the media's concentration on personalities.

The portrait that emerges is of a man driven by obsessional fears, a man whose basic stance towards the world is one of hostility and distrust because he cannot trust himself. The style of Mr. Fraser's politics is described as one of "contest-and-control". The contest, presumably, is Mr. Fraser versus the people for we are told that Mr. Fraser's political style reflects the "belief that people are natural adversaries". Poorly controlled aggression, inconsistency and an arrogant disdain for his fellow man are attributed to the Prime Minister as key ingredients in his character.

The end result of "Fraserism", the article, quoting Dr. Little, informs us, can only be the promotion of conflict and disorder.

"In Fraser, harmony seems especially remote and in Fraserism

discord seems virtually preferred.... We observe a man forever hopping between opportunism and principle, between his desire to win and his exaggerated concern with propriety, between his calls for individual enterprise and his eagerness to control and condemn; the result is instability, disorder and discord."

Michelle Grattan concludes that the Little analysis gives "a credible outline of the Fraser personality"; that it "makes sense of the unevenness of the Fraser personality, the wild swings in behaviour." But the analysis, she says, is inevitably oversimplified.

"For example, he (Dr. Little) probably writes off too cynically the innovative strand of Fraserism. While Mr. Fraser does not match Mr. Whitlam in politics of invention, he has taken up ideas and issues, for example Third World issues, out of a wider interest than simply the drive for control."

But even here the conclusion is qualified. "One could argue", she continues, "that he regards better relations between developing and developed countries as the basis for international order and control".

The obvious questions are just not pursued. If "Fraserism" produces instability, how is it that he presides over one of the longest serving governments in the Western World, one which has generally followed consistent foreign and economic policies over the past seven years? If discord and disorder are the results of Mr. Fraser's character, how are we to explain the nation uniting behind him in 1975 to produce the largest electoral landslide in Australia's history (almost repeated two years later)? And how are we to account for his success in

continuing the Menzies achievement of maintaining the coalition? As a peacemaker in Zimbabwe Mr. Fraser resolved rather than promoted discord. In bringing the Commonwealth Heads of Government together in Australia and founding the Commonwealth Regional Conference he fostered cohesion. A more substantial analysis would have taken considerations such as these into account.

Miss Grattan's article ends with the gratuitously unpleasant comment:

"Mr. Fraser on the M.C.G. on Saturday, elated by Carlton's victory, because he is all about winning, wanted to be part of it — but no one rushed to embrace him."

Once again reality was rather different. That very day, the front-page of "The Age" carried a photograph of the Prime Minister and Carlton player, Warren Jones, embracing after the game, as the caption notes "in the middle of the victory huddle". Yet the Nicholson cartoon in the same issue of "The Age" rather than addressing the scene captured on the front-page, instead amplifies the manner in which Miss Grattan elects to close her article. Journalistic rhetoric becomes "the news" on which Nicholson chooses to comment. The cartoon visualises the imagined scene; Mr. Fraser, transformed into an object of ridicule, runs naked, arms outstretched, toward a group of victorious, startled Carlton footballers. The image reinforces Tandberg's front-page drawing of the Prime Minister competing unsuccessfully with the streaker who interrupted the Grand Final. It seems that imagination has replaced reality as a source of news.

### **Crisis Making**

The media thrive on dramatising life. By portraying stable institutions as if they were in a state of crisis, the media can

help to undermine faith in those institutions and thereby in the long term create a real state of crisis.

Drama and turmoil were the features of Michelle Grattan's summary of the week in Parliament. ("The Age" September 25, 1982, Page 10). The article has the provocative heading "Parallels with 1975 Abound". She writes of the past month in Parliament as a period of chaos and crisis. The Government is amidst:

"disasters that spring from everywhere and nowhere.....(It) is like a wounded beast unable to get relief from its pain. But so far there is no marksman to put it out of its misery....."

Maintaining the fervour, she continues:

"Thursday was a day of manic politics. It was impossible if you were in Parliament House not to feel the tension, excitement and unreality. It was a day when the foundations of power were shifting, when political forces could be seen changing."

Evocative imagery such as this has the effect of arousing our emotions rather than appealing to our reason. The theme of chaos and crisis continued on Monday, September 27, with the characterisation of Mr. Fraser as the source of "instability, disorder and discord".

In contrast to Miss Grattan's manic politics, Mungo MacCallum, a few days earlier ("The Age" Wednesday, September 23) had pictured a Parliament that despite the dramatic nature of the subject matter was all dreariness and languor — so dull, in fact, that Mr. Fraser's speech defending his criticism of the Woodward Report sent most of the Cabinet Ministers and not a few backbenchers to sleep. The first to drift off, according to MacCallum, was Mr. Howard — the same Mr. Howard who

Miss Grattan claims has done nothing since his return from abroad except, "run about with a fire extinguisher". Both images deserve to be treated with scepticism.

An image repeated is an image reinforced. One theme that does emerge from a reading of many of the commentaries and cartoons dealt with here is the extent to which they are mutually reinforcing. Witness the one-sided caricature of Mr. Fraser as a ruthless opportunist that runs through "The Age" of September 25; or the Nicholson cartoon (Monday 27) which adds weight to Michelle Grattan's image of the Prime Minister isolated and friendless at the Grand Final. Similarly, a number of "Age" journalists took up the imagery of the 1975 crisis used in Michelle Grattan's article, "Parallels with 1975 Abound" (September 25). Pictured behind Mr. Fraser in Petty's cartoon in the same issue stands the ghost of 1975 and the Constitution in tatters. On the following Wednesday (September 29) Claude Forell in his article headed "A Familiar Smell of Decay" compared the events of the previous weeks to the last weeks of the Whitlam Government. He recalls the Age editorial of October 15, 1975 which said "Go now, go decently". Were the events of these weeks, he asks rhetorically, "more extraordinary, more reprehensible then than now?" Arguably, Geoffrey Barker's description of the Prime Minister's decision, mentioned above, as a "quite reprehensible act of political opportunism" evokes the same associations.

There is no doubt that the Government was facing very difficult problems at this time, but whether the issue of tax evasion, the Woodward Report and Medibank frauds, collectively, were on the same

scale as the 1975 crisis — the most dramatic political event since Federation — seems unlikely. If, indeed, it did amount to a crisis of this magnitude, the reader is left wondering where the crisis went. Was it handled effectively by the Prime Minister, ineptly by the Opposition or were we (most likely) not really facing a crisis of the magnitude portrayed?

It is not the claim of this article that "The Age" is biased against Mr. Fraser. Whether or not this is the case would be a matter for detailed study. In a liberal society it is to be expected that figures in highly visible positions of authority, such as that which Mr. Fraser occupies, will be subjected to criticism in the press. The right to express such criticism is an essential ingredient of a democracy. My intention here is certainly not to suggest that Mr. Fraser ought to be protected from criticism or that his public record is without flaws. But freedom of the press does not imply unrestricted licence. It is hardly helpful to the standard of public debate when even the Prime Minister's appearance at a football match, for example, can serve as an excuse for the ridicule of a public leader.

In the final reading what is conveyed by the cartoons and commentaries drawn on in this article is a one-dimensional picture. What the examples fail to convey is a sense of the Prime Minister facing difficult and complex issues and making decisions with which some might agree and some disagree. The solution to this is not to balance one hostile image with another: for example, a negative view of Mr. Hayden against a harsh image of Mr. Fraser. Rather it is suggested that in the interests of fairness every issue be treated with due recognition of the public's need for accurate and balanced comment.

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