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OBJECTS

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

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

INSTITUTE OF PUBLIC AFFAIRS

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Phone 61 2029
TO OUR READERS

Many of the problems facing Australia can be summed up in two words: 'Big Government'. This accordingly, is one of the major themes of this "Review".

The manifestations of big government — high taxes, over-regulation and interference in business, public sector extravagance — are some of the issues addressed in this "Review". The editorial assesses the performance of the Hawke Government in relation to these and other matters.

In the Commentary section the growth of State taxes and charges is examined. The cost of public sector superannuation which is giving rise to increasing public concern is discussed and some policy options for change are canvassed.

In the Ideas and Insights column the Thatcher Government’s policies aimed at cutting down the size of the public sector and at encouraging greater economic efficiency through privatising major state enterprise are summarised.

Electricity generation and public transport are two areas in Australia where private enterprise could play a larger role according to articles prepared by Dr. Peter Hartley and Peter Kain. Peter Samuel, a U.S. contributor, explores the beneficial effects which have followed deregulation of American air services.

One of the major issues of public policy in 1984 will be government legislation affecting the unions. Alan Stockdale argues that sanctions do work in industrial relations.

Professor Lumb of Queensland University and Ken Baker contribute to our regular columns on the Constitution and the Media.

The year 1984 will be critical for Australia and for free enterprise. The IPA will be playing its part in endeavouring to halt and turn back the menacing tide of omnipresent Government.

Rod Kemp
Director
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Peter Samuel; Special Washington correspondent, News Limited. He was formerly the economics editor of the Canberra Times and a correspondent and columnist for The Bulletin for fifteen years.

Alan Stockdale has been employed in the industrial relations area for more than fifteen years.
EDITORIAL:
Mr. Hawke and Free Enterprise
The score sheet to date

The Hawke Government has now almost completed one-third of the mandate given to it on 5th March (one-half if rumours of an early election are fulfilled).

A variety of assessments have been made on its performance to date. The ratings vary from excellent to poor, depending on the source and the criteria used.

The case for a rating of “excellent” is best made by the government itself. All governments spend a goodly proportion of their time telling electors how splendidly they are doing; how rational are their policies, how intelligent their Ministers, how strong their determination to take the tough decisions.

Representatives of the present Government are certainly not backward in singing their own praises.

However, Mr. Hawke, should not necessarily be criticised in this regard. All governments depend, in part, for their survival on their ability to convey “positives”, and Mr. Hawke is adept at doing just that.

Mr. Hawke must make sure that the gap between his Government’s rhetoric and performance does not become a chasm.

But there is a danger. One of the most persistent criticisms of the Fraser Government was that its performance failed to match its rhetoric. Mr. Hawke must make sure that the gap between his Government’s rhetoric and performance, which is far from insignificant, does not become a chasm.

In particular, the Government’s constant reiteration of its support for private enterprise must be matched by concrete policies, or it may soon sound a little hollow.

Many who feared that the ALP might implement the extreme socialist elements in its platform may class its performance as good. This rating of “good” seems to be based largely on a feeling of relief.

Mr. Hawke has gone out of his way to try to convince the business community of his Government’s good faith and to pointing out to significant elements in his Party the disasters which would flow from a rigorous application of the ALP Platform.

In the Autumn “Review” we suggested that Mr. Hawke had embarked on a mission of historic significance in his attempts to change the Labor Party from a socialist party based on ideas of class conflict to a social democratic party, based on concepts of common interest and a recognition of the fundamental role of private enterprise and the market economy in a democratic society.

While credit is due to the Government on this score, this should not be allowed to obscure the fact that the Hawke Government must be judged on criteria
applicable to all governments: its pursuit of sound economic policies which will ensure long-term reduction in unemployment, improvements in living standards and, in general, advance the public interest rather than the influence of special interests.

There are two major areas where the Hawke Government has made critical errors in economic management — budget policy and wages policy.

It is vital that a judgement on these matters be made on the economy’s fundamental economic health and not on whatever short-term fluctuations we are experiencing at the moment.

In recent weeks some indicators have suggested an improvement in the economy. This improvement is largely attributable to a turnaround in the rural sector.

Insofar as budgetary policies have contributed, they have been policies with a short-term focus with little regard to the long-term health of the economy.

In fact as far as ‘fundamentals’ are concerned the Hawke Government’s performance has been poor in a number of key areas. The Government’s economic record is easy to fault.

There are two major areas where the Hawke Government has made critical errors in economic management — budget policy and wages policy. Opportunities have been missed, and, as a consequence, serious distortions have been introduced into the economy.

The first budget of a new government is the most expeditious time for the tough decisions. The Hawke Government has failed to take advantage of its large election majority and its high ranking in the opinion polls. Instead of boldly tackling the serious budgetary problems it inherited, it chose to make confusion worse confounded by instituting major new spending commitments.

Overall public spending has grown at the highest rates since 1974/75. As the budget papers themselves make clear, the first Hawke Budget only served to exacerbate budgetary problems. The huge deficit (which may well be larger than the $8.4 billion originally forecast) seems likely to lead to further increases in the overall burden of taxation, and, among other things, has enabled State Governments to put off yet again the need to get their own finances in order.

Mr. Leard, Managing Director of A.N.I., has warned against “pseudo growth” based on a ‘one-off’ stimulus. Amid the more positive indicators, a deeply troubling fact is the failure of business investment to pick up.

In the wages area during 1983 the Government made a disastrous mistake, when for totally non-economic reasons it supported full wage indexation. This had the effect of taking at least $6 billion away from industry and paying it to people already in employment. This sum should have been available for business investment and job creation. A golden opportunity to restore Australia’s competitive position and employment prospects has been sacrificed to the claims of sectional interests.

There are a number of other areas in which the Government has made decisions which cannot be supported on grounds of economic rationality. Three
obvious examples are the Prices Surveillance Authority, proposed amendments to the Trade Practices Act, and the confused policy on uranium mining.

It may be unreasonable to expect a Labor Government to stick to the (partial) privatisation of AUSSAT, or embrace the recommendations of the Davidson Report on Telecom. But in both these areas Government monopoly has been cemented to the detriment of the long-term interests of Australians. And we still have to wait for the Martin Report to get a hint on the prospects for many of the Campbell Report's proposals.

**Actions such as the commendable decision to 'float' the Australian dollar are all too few.**

Actions such as the commendable decision to 'float' the Australian dollar, which free up markets, are all too few. Indeed, too many of the Government's decisions seem designed to reinforce existing rigidities.

Aspects of land rights legislation, and the attack on private health insurance are hardly designed to encourage confidence in the sincerity of the Government's commitment to free enterprise.

Further, the Sex Discrimination Bill could mean more government involvement in business, and suggest that a 'head of steam' could be building up for further regulatory activity in the coming year.

The comments that Mr. Hawke, Mr. Keating, Mr. Dawkins and Senator Button make from time to time on such matters as the need to rein in Government spending, the dangers inherent in large government deficits, the problems caused to industry by over-regulation, the need for action on penalty rates and so on are encouraging. But words are cheap. Action is needed.

Until the Hawke Government shows a greater willingness to address the fundamental problems facing the Australian economy, a favourable rating for its economic performance does not seem justified.
I.P.A. COMMENTARY
State Taxes — Promises and Performance

the record has not been good

Taxation is always one of the key issues in election campaigns. Any vagueness in party policy is liable to be ruthlessly exploited by political opponents.

As a result politicians are usually very careful to make their taxation policies explicit.

Hardly surprisingly all the successful party leaders, in the run-up to the last state elections portrayed policies of tax restraint.

"I am a low tax Premier — I believe in containing taxes and charges. I think it is crazy to be rooking the public all the time in the way in which Canberra does"

Mr. Neville Wran — June 1981

"We don’t see any need to increase State taxes in any area”.

Mr. John Cain, March 1982

"The ALP will not re-introduce succession duties and will not introduce new taxes nor increase existing taxes during our term of office.”

Mr. John Bannon, October 1982

"We will reduce payroll tax....give first priority to balancing the budget without increasing taxation...

Mr. Brian Burke, February 1983

"There will be no extra taxes. I repeat, there will be no extra taxes.

Mr. Robin Gray, April 1982

"We want Queensland to be a low tax island in a sea of Socialism — free from the ALP’s tax gatherers."

Mr. Joh Bjelke-Petersen, October 1983

Since these promises were made, the New South Wales Government has brought down three budgets, and Governments in Victoria and Tasmania have presented two budgets (1982/83 and 1983/84). Western Australia, South Australia and Queensland have had one budget (1983/84) since the last State election.

The following table gives an idea of the tax performance by the various State governments.

GROWTH IN STATE TAXATION

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<tbody>
<tr>
<td>Vic.</td>
<td>23.3</td>
<td>13.7</td>
<td>40.2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>N.S.W.</td>
<td>18.9</td>
<td>9.2</td>
<td>29.5</td>
<td></td>
<td></td>
</tr>
<tr>
<td>S.A.</td>
<td>11.0</td>
<td>14.3</td>
<td>26.7</td>
<td></td>
<td></td>
</tr>
<tr>
<td>W.A.</td>
<td>7.9</td>
<td>23.4</td>
<td>33.1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Qld.</td>
<td>10.4</td>
<td>4.9</td>
<td>15.7</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tas.</td>
<td>5.2</td>
<td>4.8</td>
<td>10.3</td>
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</tbody>
</table>

State taxes include payroll, stamp, land, lottery, business franchise, statutory corporation payments, various motoring taxes and a variety of other charges. Not included in the table are fines, rents and royalties. ‘Off Budget’ charges such as public transport fares are also not included.

The growth figures in the table represent the total increase in State taxation revenue in current prices. Even after adjustment is made for inflation and some boost to revenues from improving economic growth in 1983/84, it is clear that in a number of States there has been a very heavy increase in the real level of taxation.

Broadly, the Labor States, Victoria, New South Wales, Western Australia and South Australia, are pursuing higher tax policies.
New taxes have been introduced, a range of existing taxes broadened and the rates of a number of taxes increased. Queensland and Tasmania have been able to reduce the real level of state taxation. In Queensland this has been assisted by obtaining additional revenues from rail freights while in Tasmania more emphasis appears to have been given to holding down government spending.

State taxes can have a significant impact on incomes. For example the 40 percent increase in Victorian State taxes over two budgets (see table) means that the Government is collecting an additional $800 million dollars. This represents about $320 for every adult in Victoria. The growth in taxes has not kept pace with Government spending, which has risen 43 per cent!

Market surveys have shown that in recent years the ALP has been regarded as a low tax party compared with their opponents. Unless ALP State Governments reverse their current policies, this substantial electoral advantage may well be eroded.

Club of Rome Revisited

...limits to growth are political not physical

In the last decade the world economy experienced relatively poor economic growth. As a consequence, rising unemployment, static and, in some cases, falling living standards have produced widespread social and political difficulties.

From the perspective of the 'eighties it is hard to believe that barely a decade ago advocacy of low or zero economic growth had become very fashionable.

So much so, that the Commonwealth Treasury felt the need to argue the case for growth. In a paper released in 1973, "Economic Growth: Is it Worth Having?", the Treasury helped lead a counter-attack.

The low growth advocates had received powerful support from the Club of Rome,* which sponsored a study, "Limits to Growth", conducted by a team at the Massachusetts Institute of Technology. Its Report was released in 1972.

The Club of Rome argued that many of the planet's mineral resources would be exhausted in a few decades. There was, therefore, a need to bring about a deliberate, controlled end to growth.

"Limits to Growth" was subjected to some very damaging criticism. In Australia, the Treasury carefully detailed the fundamental weaknesses of the type of approach taken in the Report.

Referring in a public forum to the much vaunted computer projections made by the study's researchers at MIT, John Stone, now the Secretary to the Treasury, retorted, "garbage in, garbage out".

Despite the efforts by many eminent economists to correct the misconceptions spread by the Club of Rome, there is no doubt its predictions of impending crisis as mineral resources run short gave a powerful impetus to the conservation movements and the proclivities of governments (never far from the surface) to further regulate the mineral industry.

The arguments that only a minuscule amount of the world's mineral resources are currently being counted as reserves,
and that market forces, allied with technical progress, will ensure that these resources are developed, fell for the most part on deaf ears.

Ten years "down the track" it is possible to see how the Club of Rome's predictions are faring.

Contrary to the trends predicted, world reserves of practically all key minerals have actually increased in some cases very substantially. For example,

- Natural gas: "Limits to Growth" cited 1140 trillion cubic feet. Today reserves are 3,000 trillion cubic feet.
- Coal: the ratio of technically economically recoverable reserves to current consumption has increased from 165 years to 218 years.
- Uranium: world reserves have at least trebled since 1973.
- Bauxite: world reserves have risen from 5 billion tons quoted by the Club of Rome to 22 billion tons today.
- Copper, nickel: reserves have substantially increased.

Oil is the only commodity in which the ratio of reserves to current consumption has not increased. But as Hugh Morgan of Western Mining Corporation said recently, "Nobody with a serious interest in the subject thinks that oil is going to be scarce. What happened to all those liquefaction schemes? Oil from shale projects?"

In short, the last decade gives strong support to the theories of the market economists: forecasts of shortages and of rising prices inspire companies to search for more reserves. The concept that growth would be limited by resource constraints has been invalidated — as some of the prescient market economists predicted!

The real limits to growth have not been resource scarcity. Governments have frustrated market forces by attempting to control prices, imposing impossible tax burdens, restricting capital flows, preventing exploration and development, over-regulation and so on.

In fact, the Club of Rome failed to focus on one of the key factors which threatened to limit world economic growth and improved living standards: the role of governments and the temptation to manipulate market forces to buttress their political ambitions.

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Youth Unemployment: In the Too Hard Basket

...governments and welfare lobbies avoid the issues


In particular, it highlights the power of institutions and how the political process is more responsive to their demands than the wider community interest.

On the surface there is a shared bipartisan concern that youth unemployment is one of Australia's most urgent problems.

Churches, welfare lobbies, unions and industry are all part of the community consensus in proclaiming the evils of youth unemployment.
The release of the Report might have been expected to have created considerable community interest among all groups concerned with this issue. The report after all did provide the most comprehensive analysis to date on the relationship between youth employment and wages.

It also provided some important recommendations.

But media reports at the time of the Report's release last June suggested that the Government did its best to bury the report.

Nor is there any record of a bishop, minister or social worker, (or indeed any member of a social action group) thundering about the heartlessness of the Government or the ineptitude of the Opposition for failing to force the Government to address the issues outlined in the Report.

When the findings of the Report are analysed, the Government's attitude is explicable, but not excusable.

Among other things, the Report argues:
• Youth employment has been adversely affected by the increase in youth wages relative to adult wages over the 1970s.
• Young people have not benefitted from the enormous growth in public sector employment. (More experienced, better educated people are preferred).
• Trade union work restrictions may have an adverse affect on youth employment in some industries.
• Industrial Tribunals have not paid any regard to the adverse effects their decisions may have on youth unemployment.

These findings run counter to much of the conventional wisdom on the reasons for youth unemployment.

Some of the Report's recommendations are:
• Change the process of wage determination to ensure the market consequences of all arbitral decisions are taken into account.
• The Arbitration Commission could conduct a general inquiry into the determination of youth wages.
• The current ACTU policy on youth wages (that they should be increased relative to adults) could tend to depress youth employment still further.

In the six months since the release of the Report little seems to have changed. The government approved work programme of the Bureau of Labour Market Research which produced the Report does not adequately reflect the research priorities laid down in the Report. Neither the Government nor the ACTU has taken up the key recommendations of the Report.

The Labor Government could make a genuine contribution to the solution of youth unemployment by paying more attention to the Report.

Certainly it may mean confronting elements in the Trade Union movement. But no one could doubt the good faith or the motivation of a Labor Government determined to give a lead in this area.

Youth unemployment is a social and economic tragedy of such proportions that there can be no excuse for government leaders sweeping the issue under the table.
Turning Cheap Resources into Expensive Energy

The Role of State Electricity Commissions

by Dr. Peter Hartley

Australia has a large relative endowment of both energy resources and of minerals which need a large energy input to be refined. A greater role for private industry in electricity generation might enable Australia to exploit its mineral endowment to better advantage.

Australia possesses a relative abundance of energy resources — particularly coal and uranium and, to a lesser extent, natural gas. Australia also possesses an abundance of other important inputs into energy-intensive, resource-processing industries, including significant reserves of minerals (such as bauxite, manganese, iron ore, titanium, nickel and zinc) and a skilled work force. It is tempting to conclude Australia is likely to have a large resource-processing industry. That it does not is largely the result of government policies.

Yet these are not the only ways government has removed any comparative advantage for energy-intensive resource development in Australia. Much energy-intensive resource processing using Australia’s extensive coal resources will first require the coal to be used to produce electricity, and the electricity industry is dominated by State Electricity Commissions which appear to be very inefficiently managed.

The sources of these inefficiencies are twofold. First, the lack of incentives inherent in government as opposed to private organisations and, second, the absence of competition in the electricity generating industry. A larger private sector role in electricity generation would enable Australia to reap greater benefits from its resource endowments, particularly if accompanied by the removal of other imposts on the resource-processing industry.

High electricity costs

Given the resources and technology available to Australian electricity generating enterprises, costs appear to be much higher than they need be. A detailed comparison with overseas producers using similar technology, and taking account of differences in factor prices, suggests that Australian electricity generating
enterprises are not run in a way which minimises production costs.

Overmanning
For example, the State Electricity Commission of Victoria (SECV) uses very similar technology and fuel to some West German firms. Compared with these firms, there appears to be extreme overmanning at Loy Yang in both the construction and operations areas (Rheinbraum [1982]). Overmanning is also suggested by the following comparison of the labour intensity of Australian electricity producers with overseas thermal-based electricity supply systems.

<table>
<thead>
<tr>
<th>COUNTRY</th>
<th>OWNERSHIP</th>
<th>KWH PER MAN (1980/81)</th>
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<tbody>
<tr>
<td>Japan (Average)</td>
<td>Private</td>
<td>3.06</td>
</tr>
<tr>
<td>Germany (RWE)</td>
<td>Private</td>
<td>3.80</td>
</tr>
<tr>
<td>Australia (Average)</td>
<td>Public</td>
<td>1.18</td>
</tr>
<tr>
<td>South Africa (Escom)</td>
<td>Public</td>
<td>1.73</td>
</tr>
</tbody>
</table>

Capital Costs
The committee of inquiry into Loy Yang costs (Wright [1982]) concluded that, in the past, the annual growth of SECV capital costs per unit of capacity was of the order of \( \frac{1}{2} \) to \( \frac{3}{4} \) percent above that of general Australian capital expenditures.

There is evidence that the private sector has had a better industrial relations record than major public sector enterprises.

Maintenance
In a report on the electricity supply situation in Victoria, the SECV [1982] noted that the available capacity factor for the Anglesea power station, owned and operated by Alcoa of Australia, was 95.3 percent over the four-year period 1981/82 compared with 65.2 percent for Yallourn E over the same period. (Yallourn E was an SECV development contemporary with Anglesea using similar technology). Rheinbraum [1982] also assessed that maintenance in the SECV could be improved to achieve a higher available capacity factor. Studies of Electricity Commission operations in NSW have also been highly critical of maintenance procedures.

Industrial Relations
There is also evidence that the private sector in Australia has had a better industrial relations record than the major public sector enterprises. With some protection from market pressures by virtue of their status as monopoly owners of the electricity distribution grid, the electricity commissions appear to be more vulnerable to militant union pressures than are private sector firms.

In addition, the large degree of government involvement in the operations of the commissions makes wage levels and conditions of employment subject to political as well as economic factors, and increases the benefits to be gained from industrial action.

Inappropriate prices
Apart from doubts as to whether generating costs are being minimised there are other grounds on which to question the efficiency of the electricity supply industry in Australia.

Tariff charges tend to reflect, among other things, the political power of consumer groups. For example, uniform tariffs, regardless of the location of the consumer, no doubt reflect the political influence of rural voters.

Pricing also appears to be influenced by the 'elasticity of demand' for electricity (or the sensitivity of the demand for electricity to changes in prices). For
example, customers purchasing electricity for commercial lighting, who cannot easily adjust their demand to variations in price, face higher prices than either domestic or industrial users throughout Australia.

**Government involvement in the operations of the Commissions makes wage levels subject to political as well as economic factors.**

High tariffs for users with a low elasticity of demand are a good means of raising revenue to subsidise more ‘elastic users’, so expanding the overall demand for electricity. However, they do not promote the use of electricity (and hence the community’s scarce capital, labour and raw material resources used to produce it) in those activities where its value is greatest.

Finally, it is well-known that the costs of producing electricity are much higher during periods of peak demand than in off-peak periods. If prices do not reflect these cost differences, consumers are not given an incentive to re-schedule their demand to make more effective use of electricity generating capacity.

**Inefficiencies inherent in system**

It might be thought that the inefficiencies in the Australian electricity supply industry could be corrected by pointing the problems out to Government, with a view to encouraging more appropriate policies through increased monitoring of State enterprises. It is unlikely, however, that the inefficiencies can be removed without radical changes in the institutional framework within which electricity is supplied.

The groups which have an influence on the costs, output, and pricing policies of State enterprises — managers, employees and politicians — are not necessarily interested in maximising efficiency. In fact, many of the problems identified above can be shown to be the logical outcome of the incentives inherent in providing electricity through a publicly-owned monopolist.

For example, the setting of prices to expand demand for the output of the enterprise, and in particular the demand for capacity during peak periods, will benefit ‘empire-building’ managers and union leaders alike. Similarly, tendencies toward over-manning and excessive costs will be to the benefit of employees and a luxury a profit-maximising competitive firm could not afford.

Nevertheless, managers and employees of the enterprise are unlikely to be left to their own devices. Politicians are also likely to be concerned with the (pricing and output) decisions of the utility and therefore to have an incentive to monitor its performance. However, in contrast to shareholders in a private firm, it may not necessarily be in the private interests of politicians to ensure the enterprise operates efficiently.

**Politicians have little incentive to pursue efficiency.**

A representative political system based on majority rule is likely to result in government policies which favour a coalition of minority groups with the costs dispersed across many voters. Politicians will be concerned to ensure that politically influential groups are given reasonable service at a low price, but will have little incentive to pursue efficiency.
Private companies
Managerial performance in private firms is subject to a form of monitoring largely absent in publicly owned utilities. In large private firms, managers are under constant supervision from Boards of Directors, representing shareholders, whose concern is with profit maximisation, since profits affect both the return on their investments and the price of their shares. Transferability of ownership limits the divergence between the aims of management and shareholders and encourages the pursuit of products more attractive to consumers or lower costs of production. Also, competition between private firms, either actual or prospective, is a very potent means of encouraging the minimisation of costs and endeavours to satisfy the demands of consumers.

The benefits of private enterprise in this area might be questioned given the performance of some private energy utilities in the United States. However, electric companies in the United States are subject to rate-of-return constraints and at frequent intervals their managements are obliged to go before rate-of-return hearings which review profit, cost and pricing structures. Political influences can be brought to bear on tariffs, investment policies and the relationship between managers and employees.

The effect of setting a target rate of return for privately owned utilities converts them into bodies which have little incentive to reap those very advantages which are the driving force of private enterprise — such as the search for higher profits, lower costs, new markets and more efficient pricing structures. What value is the threat of a takeover, given that the rate of return has to be the same both before and after?

Policy changes
Effective competition in electricity generation in Australia would greatly increase incentives towards cost minimisation. It would also stimulate investment in alternative technologies, especially co-generation from ‘waste heat’ but also more exotic forms such a solar or wind generation.

State Governments in Australia should remove legal prohibitions on the private generation of electricity.

State Governments in Australia should remove legal prohibitions on the private generation of electricity and reform those aspects of current pricing practices which provide a few incentives for private generation. If private firms supplying electricity to the grid could be paid the costs they save the public electricity authorities (including any savings on available system capacity), activities such as coal liquefaction, which use coal but could produce electricity as a joint product, would be encouraged.

In addition, a realistic reward for private initiatives which reduce the demand for system capacity would increase the attractiveness of industries, such as smelting, where power demands could be cheaply interrupted to supply valuable electricity at the system peak. Similarly, appropriate pricing of electricity to reflect cost variations over time may make interstate trade in electricity more profitable and increase competition between the existing government-owned generators.

Wright, K., "Committee of Inquiry into Loy Yang Costs", Mimeo, 1982
Commonwealth Superannuation: Time to Restore Equity

The Commonwealth Government is concerned about the cost of retirement incomes to the taxpayer. But its actions, so far, have little effect on most public sector schemes. This article outlines a proposal which has the advantage of being politically saleable, makes economic sense and would help restore equity.

1984 has arrived, but it is another of George Orwell’s books which comes to mind when one examines the current superannuation scene. ‘All animals are equal’, he wrote in Animal Farm, ‘but some animals are more equal than others’.

In human society some people can be more equal than others. The more equal, by and large, are today’s public servants, the less equal today’s private sector taxpayers. Unless some positive action for change is taken, the disparity and the burdens will continue to grow.

The more equal are public servants, the less equal are private sector taxpayers

It is time to look back to some basic principles. The Public Service exists, in theory at any rate, to serve the public. In our complex society it is at the hub of many operations, providing services which, for one reason or another, are not undertaken commercially. Employment conditions in the public service should be broadly commensurate with the corresponding norm in the private sector. There is no good reason why they should be better or worse.

This principle has been lost sight of in recent years. Not only in Australia, but in many overseas countries as well, the public sector has used its influence at the centre of the legislative process to protect its members from economic realities faced by the population at large.

Real costs disguised

A groundswell of opinion against the perceived excesses of ‘public service superannuation’ is already apparent from press comment. What is less widely understood, however, is that the true cost of this self-indulgence has yet made little impact on the average taxpayer.

Most benefits are financed on the ‘pay as you go’ principle, with a cost recognised as such only when the dollars actually have to be paid out to the beneficiary. This means that the true impact on revenue of the benefits promised now will take a generation or so to work its way through. In the meantime, costs can be represented at far below the levels which will be needed in the long term to support the promises.

In effect, the security of benefits for today’s public servants rests on the willingness of future taxpayers to foot a bill much higher than today’s taxpayers are meeting. By contrast, superannuation benefits in the private sector are paid for — with few exceptions — during the working lifetime of those who are to receive them. The value of these benefits is reflected at once in the price charged for goods and services.
What is needed now, especially in the wake of the Commonwealth's recent initiatives to tax lump-sum benefits more heavily and to re-introduce an assets test for pensioners, is some action to redress the balance. Governments which are committed to fairness cannot delay acting.

No one would pretend that all the issues can be easily resolved, but a start must be made. At the heart of the problem are what many observers see as the nation's anomalous tax and social security structures. These can distort the equation of value between what a benefit costs to provide and what it is worth to a recipient.

Costs

For example, until the recent (proposed) changes, a member of a 'lump-sum' fund (whether in the public or private sector) would pay minimal tax on his benefit and could arrange his affairs so as to 'double dip' on the old-age pension. By contrast, a member of a 'pension' fund (such as many public sector arrangements are) receives a regular income, which both suffers tax and denies him access to the old-age pension. Against these realities, identical contribution rates to finance benefits under a 'lump sum' fund and under a 'pension' fund do not generate benefits of identical value to the recipient.

The security of benefits for today's public servants rests on the willingness of future taxpayers to foot the bill.

None the less, there remain very large discrepancies between the value of public sector (mainly 'pension') and private sector (mainly 'lump sum') benefits. The Commonwealth Government Actuary has calculated a notional contribution rate from the employer of 21.5 percent of salary to finance benefits for a new entrant to the Commonwealth Scheme, exclusive of those bought by the member's own contributions. By contrast, benefits under a 'typical' private sector scheme (as assessed by a recent survey) would cost the employer only some 9.0 percent of salary on the same calculation assumptions. To build up a notional fund to meet past service liabilities already incurred under the Commonwealth Scheme (that is, to set the financing on a comparable basis with private sector practice) would raise the employer's rate from 21.5 percent to about 33 percent until those liabilities had been met.

The unfunded liability of the Commonwealth Scheme alone, $10-$15,000,000,000, works out roughly at $1700 to $2500 per taxpayer. In view of the special features of the state as an employer (e.g. its ability to raise taxes), it is often argued that there is no need for public sector schemes to be funded. Nevertheless, these figures give an indication of the accruing cost of public sector superannuation.

Indexing

What are the features of public sector schemes which cost so much? Undoubtedly the major one is the automatic linking of pensions to increases in the Consumer Price Index. Whilst this may be a most desirable feature insofar as it guarantees the living standards of the pensioner, it begs the question of whether the community can afford to attach it to a pension based on a high percentage (up to 70 percent) of an employee's final salary.
The National cake is simply not big enough to extend to everyone slices of the size now offered to public servants

It is often difficult to visualise the value of such index-linking because of the numbing implications of sustained high rates of inflation. A person retiring at age 60 and then living for the next 20 years through inflation at 10 percent per annum will be receiving by then almost 8 times as much in $ terms as at the outset.

Put another way, the person who retires on a fixed $ income would find that by then its purchasing power would have fallen to one-eighth of its initial level. Not only is it impossible in an economic sense for a private sector fund to guarantee CPI-linking of benefits, the level of funding necessary to meet such a commitment would not be acceptable to the Tax Commissioner!

Early retirement

Many public sector schemes have an effective retiring age of 60, in contrast to 65 common in the private sector. This both shortens the working lifetime of the member and lengthens the period after retirement for which a pension will be payable. Similarly, it is common public sector practice to base a retirement benefit on salary level at or very close to retirement, whereas private sector funds usually use a three or five year averaging period.

Another major factor in the comparative cost of public service benefits is the widely-acknowledged lax policing of ill-health retirements. This has led to some horrific rates of claim in recent years. (See John Colls, The Quarter Million Dollar Man, IPA Review, Spring 1983). Such rates have not been fully allowed for in recent costings, presumably in the belief that improved administration in future will cut back the claims to levels more in touch with general community experience.

Where do we go from here? Present tax and social security legislation distorts the position, but the basic issue is that public sector superannuation benefits are pitched at a level which the community as a whole cannot afford. The national cake is simply not big enough to extend to everyone slices of the size now offered to public servants. In a world of unlimited resources — which perhaps is how many a cynical private taxpayer would view the public sector — the obvious solution is to increase the size of the cake so that everyone can have a large slice. In the real world, the size of the economy cannot be determined by decree. In essence, a cake of the present size must be sliced up more equitably.

This can be tackled in two ways.

The total 'remuneration package' in the public service could be monitored against what market forces determine for the corresponding job in the private sector. In brief, many public sector salaries would then be reduced below the private sector level to allow for the greater value of the other elements in the package. This approach has been tried in the U.K.. Its deficiency — apart from the bureaucratic effort of policing it — is that it perpetuates, however fallaciously, the notion of "two nations" for superannuation purposes, the cushioned and the exposed.

Better and simpler would be to bring public sector superannuation back into line with private sector norms. The
difference is that changes for the better should be spread across the whole community at a price it can afford, not concentrated on a privileged group at a price the community cannot afford.

The long term problem can be solved by developing a new scheme for all new entrants to the public service.

A solution

Recently, a new public sector superannuation scheme was set up for university and CAE staff in Australia. It is to be financed by contributions of 7 percent of salary from members and 14 percent from employers, with provision for any extra costs which may arise to be met in the same ratio. Such a scheme is itself generous by private sector standards, but its main significance lies in the implicit recognition by the Federal Government that the 14 percent employer contribution rate is a ceiling. The comparable structure of the major established public sector schemes is 5 percent or 6 percent from the member with the employer picking up the (unspecified) balance, which in reality is 20 percent to 30 percent of salary.

The new universities' scheme is designed to cater for all types of staff, from the highly paid to those on lower incomes. Its concepts can surely therefore be extended with only minor modifications to the public service generally.

The long-term problem can be solved by developing a new scheme for all new entrants to the public service.

Those currently on existing public sector schemes might retain their entitlements. New entrants to the public service would be required to enter a new scheme, more in line with private sector arrangements.

The protection of existing entitlements could be criticised as perpetuating inequities. However, it would ensure that the obvious political problems would be minimised. There are many precedents for 'savings' clauses in Commonwealth legislation to protect existing benefits. It would recognise the expectations and plans of those already in public service schemes and write off the cost of their benefits to an accident of history.

Indeed, given the fact that the cost of these schemes is obviously going to cause mounting taxpayer unrest, public servants should have a strong interest in protecting current entitlements, while ensuring that economies can occur.

A tougher and more equitable option would be to develop phase-in arrangements which would protect the entitlements of those who will retire within, say, the next five years. Thereafter, the expectations of younger members could be scaled down progressively to equate at the other extreme with the benefits for new entrants.

The Commonwealth Governments' proposals on lump sums and asset tests have clearly demonstrated that superannuation arrangements are not sacrosanct. On the grounds of equity and budgetary responsibility, government should now turn their attention to the mounting cost of public sector schemes.
Industrial Relations: Sanctions Do Work

by Alan Stockdale

The Hawke Government is moving Australia to a pattern of industrial relations in which legal sanctions are imposed on employers but unions are above any legally enforceable restraint. ALP policy proposes immunity for unions from any sanctions under the Trade Practices Act and the Conciliation and Arbitration Act.

"Public policy concerning labour unions has, in little more than a century, moved from one extreme to the other. From a state in which little the unions could do was legal if they were not prohibited altogether, we have now reached a state where they have become uniquely privileged institutions to which the general rules of law do not apply. They have become the only important instance in which governments signal fail in their prime function — the prevention of coercion and violence"....

"It cannot be stressed enough that the coercion which unions have been permitted to exercise contrary to all principals of freedom under the law is primarily the coercion of fellow workers".


One of the roles of law in a liberal, democratic society is to prevent private coercion and help resolve conflicts by the consistant application of just rules. Apart from the Trade Practices Act, Australia's industrial laws have failed lamentably in this role in the last 15 years. Federal Labor policies threaten to aggravate this trend and continue to achieve their own ends without regard to the public interest.

Just application of law is probably a necessary requisite for the long-term survival of any industrial relations system. The unbalanced application of the law in the Australian Arbitration system has become a powerful factor in undermining public support for the system.

There is no doubt that the law can be a powerful instrument for influencing industrial relations and that as an aspect of this legal sanctions have a role to play.

The law can be a powerful instrument for influencing industrial relations; legal sanctions have a role to play.

One area where the law has been effective in regulating industrial relations is in the area of secondary boycotts.

Unions have developed this tactic for situations where direct application of "industrial muscle" would be ineffective. A secondary boycott consists of picketing, bans and/or other industrial action against a third party which prevents the "target" delivering his goods to his customers or obtaining goods from his suppliers.
Section 45D of the Trade Practices Act has proven very effective in countering secondary boycotts. The section prohibits most secondary boycotts and the Act otherwise provides a comprehensive armory of enforcement provisions.

It provides for very substantial pecuniary penalties, makes offenders liable in damages for losses arising from any boycott and provides for speedy injunctions against boycotts.

The principal remedy is by injunction and in this area the law has been very effective indeed. In virtually all cases the granting of an injunction has resulted in a speedy end to union action. In most cases, disputes have been resolved after an injunction was granted without resort to the longer proceedings to recover damages.

It is particularly significant that Section 45D has been successfully used against extremely militant unions such as the BLF (The Scissor Lifts Case) and the Seamen's Union (The Utah Case). In many cases, the mere threat of Section 45D proceedings has been followed by a cessation of industrial action.

The Section 45D experience has convincingly demonstrated the efficacy of industrial sanctions. It contradicts the common argument that sanctions are ineffective and harm industrial relations.

Government policy contradictory

On 23rd November, 1983, in a speech to the Commercial Law Association of Australia, Senator Evans announced substantial strengthening of Trade Practices Act sanctions on business but simultaneously proposed repeal of Section 45D.

Section 45D has convincingly demonstrated the efficacy of industrial sanctions.

The ALP's Federal platform commits it to increased regulation, greater enforcement powers and higher sanctions in relation to business conduct. Implicit in these policies is a recognition that —

- government has a responsibility for balancing economic interests through law, and that
- proper discharge of that responsibility requires effective legal sanctions.

These principles are the reverse of the assumptions implicit in ALP industrial relations policy. Wittingly or unwittingly it is a policy which leads to the promotion of union interests at the expense of the public interest. It provides for —

- removal of “pains and penalties” from industrial legislation,
- repeal of provisions for penalties upon industrial action,
- repeal of all penalties directed at unions and unionists,
- exemption of unions from the Trade Practices Act, and
- “limited immunity” of unions and unionists from civil liability for damage caused by industrial action.

Emasculated Conciliation and Arbitration Act has failed

By contrast with the Trade Practices Act, the enforcement provisions of the Conciliation and Arbitration Act have been emasculated. As a result experience under the Conciliation and Arbitration Act stands in sharp contrast to the effective operation of Section 45D.

Australia's system of industrial conciliation and arbitration was established in 1904. It then represented
the aspirations of Australians to an alternative to the law of the jungle in industrial disputes. In 1886 the Fourth Inter-colonial Trade Union Congress had resolved:

"That this Congress would respectfully urge upon the various colonies the necessity of at once establishing boards of conciliation and arbitration, in order that disputes between employer and employee may in future be adjusted without recourse to the cruel and unscientific means which have usually been adopted in the past; viz. strikes and lockouts".

The need for a system of industrial laws was confirmed by the bitter industrial confrontations of the 1890s which revealed the inability of labour to then withstand the economic power of employers. Our founding fathers described the industrial system as a new province for law and order.

Especially since World War II, the economic wheel has turned so that predominant economic power now rests with organised labour. Our industrial systems have failed to adjust to this change and have become simply another forum for the exercise of that power.

Prior to 1969 an effective system of sanctions applied under industrial law. In the most extreme cases industrial action was prohibited and in some cases unions were fined. In 1969, Clarrie O'Shea, Secretary of the Tramways' Union successfully challenged the system. Contrary to the popular view, O'Shea was not gaolde for taking industrial action. His union had been fined; in the course of further proceedings, O'Shea refused to obey a Court order that he produce his union's books to the Court. As such his actions threatened the effectiveness of the whole legal system. O'Shea was eventually arrested and gaolde. After a short time in prison O'Shea was released when an anonymous benefactor paid the union's fines. From that time the general view developed that Governments would not enforce the Conciliation and Arbitration Act against unions.

Since the O'Shea case in 1969 the Conciliation and Arbitration Act has been consistently weakened.

Since the O'Shea case, the Act has been consistently weakened and Labor now threatens to remove all enforcement provisions applicable to unions (not, however, those applicable to employers). In 1970 the Act was amended to introduce enforcement procedures which are so cumbersome as to be completely ineffective against even illegal strikes. At the same time, the Court's power to order compliance with an award or to enjoin breaches of awards was removed. From that time, effectively, there have been no legal sanctions against industrial action. The only defence of an employer has been his capacity and readiness to withstand economic attrition. Whilst statutory enforcement provisions are often and effectively invoked against employers — usually by public servants and at public expense — the "enforcement" provisions concerning illegal strikes, bans, etc. have fallen into disuse because they are slow and cumbersome and because the parties believed that governments would not enforce any penalties imposed.

The "no sanctions" system has been tried and has failed. The period since the O'Shea case has seen both record levels of
industrial disruption and disastrous wages explosions.

In the decade following the O'Shea case annual working days lost through industrial disputes were, on average, almost four times the level of the previous decade. Only part of this increase could be explained by the increase in the size of the workforce and the somewhat more difficult economic environment in the 'seventies' compared with the 'sixties' (in part caused by union militancy). A contributing factor was the removal of effective penalties under the Conciliation and Arbitration Act.

In the 1974 BLF de-registration case, Mr. Justice Smithers pointed to the loss of the Court's power to grant an injunction restraining the breach of an award which he described as "a simple procedure, commonly invoked and frequently remedial in its effect".

The effective destruction of the enforcement provisions has had a substantial effect on the balance of industrial power. Effective enforcement provisions did not depend upon "fining workers back to work". The provisions were used far more subtly. The Commission employers, governments and even moderate union officials used the threat of the sanctions as one means of influencing militant unions and (especially) dissident rank and file groups.

Not all unionists and union leaders are prepared to pursue extravagant claims or to use extreme forms of industrial action regardless of consequences. Many have always acknowledged that such tactics imperil the interests of the whole community including those of unions and their members. Moderate officials were able to support a policy of the ultimate orderly settlement of disputes by an appeal to submit claims to arbitration to protect the union from fines. The effective threat of sanctions thus tended to re-inforce the influence of moderates over the militant extremists. Effective abolition of sanctions played into the hands of the militants. Since 1969 the influence of moderates has depended upon their personal powers of persuasion (fortunately, in many cases, substantial) and upon external factors, principally economic adversity.

Similarly, the effective abolition of sanctions has deprived tribunals and employers of bargaining power. Employers, and even tribunals, have felt it necessary to attempt to "buy" industrial peace with costly concessions. Obtaining delivery has often proved impossible.

**Industrial sanctions needed now**

The Government's policies contrast sharply with trends to restrain union power in other developed countries, with its policies towards other community groups and with the success of Section 45D in moderating union excesses. Unions have demanded emasculation of the Trade Practices Act, too, not because sanctions have failed but because Section 45D has worked as an effective restraint on union power. The current recession has tended to obscure the inability of "consensus" industrial relations to cope with unions which refuse to recognise any interest other than their own. Most unions have been prepared to forgo the exercise of their power in the wider public interest. The major exception has been the Food Preservers Union which refused to accept the new national wage system and embarked on a campaign of industrial action resulting in wage increases in excess of the national wage standard. The success of the FPU campaign bodes ill for
a system ill-equipped to effectively pressure the determined recalcitrant. Improving economic circumstances seem certain to expose the inability of our industrial system to deal with the "hard cases."

The removal of all restraint on the exercise of union's power threatens not only sustained recovery but the freedom of individuals. Provision of a rational industrial relations framework demands that Government restore the authority of industrial tribunals by again endowing them with the power to initiate the application of prompt and effective sanctions against unjustified industrial action. Action on those lines would certainly bring public support. Surveys mounted by Professor Aitkin show that public concern over excessive union power increased markedly after penalties were effectively removed from industrial disputes.

The Labor Party could do nothing more effective in ultimately destroying the Arbitration system in this country than continuing its policy of placing unions beyond the law.

The removal of penalties has thus been counter productive, even when viewed from the standpoint of unions and others who supported the weakening of the Arbitration Act. The ineffectiveness of the legislation has been a major factor in helping to bring the whole system of conciliation and arbitration under attack. Public confidence in the system has declined and hostile attitudes towards trade unions have increased. Australians have a strong sense of fairness and justice, and placing any set of institutions above the law can only in the end lead the people to regard them as unfairly privileged and to view them with hostility.

In the long run, therefore, it is in the interests of a healthy and strong trade union movement in Australia that the law be seen to be equitable and fairly applied to all elements in industry. Criticism of the arbitration system is only likely to continue to mount without a restoration of balance to the Act.

The Labor Party could do nothing more effective in ultimately destroying the arbitration system in this country than continuing its policy of placing unions beyond the law. Difficult as the application of penalties may sometimes be, effective sanctions are in the end a vital underpinning of public support for whatever system of industrial relations we may have.

The public interest in a proper balance between unions and employers requires —

• introduction of significant penalties for unlawful strikes and other forms of unlawful industrial action,
• legislation for effective sanctions against breaches of awards and agreements,
• provision of power for courts to grant injunctions (including interim and interlocutory injunctions) restraining breaches of contracts, awards, and agreements, and
• enactment of provisions giving courts power to award damages promptly where unlawful union actions cause loss or damage to others in the community.
Taxing Ourselves into Prosperity?

by Sir James Balderstone

The IPA was formed forty years ago to promote free enterprise in the conviction that this system offered the best way to advance the prosperity and guarantee the freedoms of the Australian people. The President of the IPA, Sir James Balderstone, reviewed at the Institute's Annual Meeting in October some of the problems facing free enterprise. This article comprises extracts from Sir James' speech.

The challenges facing free enterprise have changed significantly since the foundation of the Institute.

On the positive side, not many people still believe that the road to the economic heights is through the nationalisation of industry — once the central pillar of the Labor Party platform.

In academic circles in Australia and overseas, there has been a vigorous resurgence of free market thinking. Socialist concepts are, of course, far from dead, but their advocates are less numerous than two or three decades ago.

The economic distortions in most Western countries today, which are in part the result of the explosion of public spending in the last ten years, have led to considerable community disillusionment with big spending Governments. Indeed, Government is often seen as more responsive to the claims of special interests than to wider community needs.

The new Australian Government, itself, is in some ways a reflection of these changes in community attitudes.

The Labor Government was elected — not because people wanted major changes in their economic system — but because the Labor Party was able to persuade the people that it could make our system work better.

The public debate now is around "How can free enterprise be made to work more effectively?", rather than "Should we have a free enterprise system at all?".

Party debate

In the Budget Speech the Treasurer stated, "The Government recognises that recovery in the private sector is fundamental to the restoration of Australia's economic health. We intend to assist that recuperation". This is encouraging enough, but whether the deeds so far have fully matched the words is open to question.

However, it should be recognised that the change in the party political debate in this country is one of historic importance and one which is welcomed by business and will be to the ultimate benefit of the Australian people.

At the same time there are disturbing trends in the public debate, the most
important being the emergence of new special interest groups, some with a strong anti-free enterprise bias.

**Public sector spending**

The Commonwealth Government and its State counterparts have effectively appealed to the electorates by offering, among other things, better management and accountability for public sector spending. While they claim to have deliberately rejected the big spending approach of the Whitlam Government, we are being faced with a major upsurge in public sector spending.

- The share of the public sector in GDP could rise to around 44 percent in the current financial year; this compares with 42 percent in 1982/83; and around 38 percent for the previous eight years.
- Public sector borrowings this year will total an astronomical $14 billion, compared with $10 billion last year and an average, of around $4 billion through the seventies.
- Public sector inflation, as shown by the I.P.A. prices indices, is rising at a significantly faster rate than prices in the private sector.

The rapid growth in public sector outlays is posing a major threat to the health of free enterprise in this country and with it the prospect of sustained recovery and employment.

Both the State and Federal Governments came into office complaining about the financial problems left by their predecessors.

But they have since embarked on major spending programmes which have been to the detriment of their own budgetary position, and, I believe, the economy in general.

The great increase in the size of Government is reflected not only in the major government borrowing programmes but also in the higher taxes and charges that industry and individuals are being asked to bear.

In a context where industry is still suffering from major cost problems it is an economic absurdity for Governments to pursue high tax policies at a time of severe recession. It also makes it much more difficult to achieve wage restraint.

Governments appear to be working on the strange theory that we can be taxed into prosperity!

And the large deficits which are occurring bespeak further increases in taxes and charges, unless cost-cutting programmes are put in place.

Governments, both State and Federal, must understand that free enterprise is being crowded out, not only by deficit spending, but by the growth of taxes, charges and regulations.

Businessmen have been encouraged by the willingness of the new Government to consult and often by its expressions of support. But the real test lies in performance, in its capacity to take the decisions which will encourage the revival of the private sector.

If the Government is to achieve success...
in the management of the economy, it must demonstrate a far greater determination to hold down public sector spending than it has to date.

NEW IPA APPOINTMENT
The IPA is pleased to announce the appointment of Mr. P.D. Ritchie to the Council.

DEMOCRACY IN CRISIS
by Michael C. Jensen and William M. Meckling

The Centre for Independent Studies recently published this occasional paper.

"Democracy in Crisis walks the thin line between realism and pessimism." The authors view western democratic governments as similar to a gigantic snowball rolling down a steep slope — ever larger, more destructive, and less responsive to control — with the free market lying complacently in its path. This thought provoking paper alerts us to the danger; what we then do with our increased awareness is crucial and entirely up to ourselves."

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On the Buses

by Peter Kain

The mounting deficits of Government operated bus and tram services should be encouraging Governments to examine whether there are less costly ways of meeting public needs. A recent study on urban transport in Adelaide highlights how a Government takeover of private bus operations dramatically increased the costs of these services to the community.

The rapid deterioration in the financial performance of Government-run transport in recent years, reflected in escalating deficits, should lead us to seek less costly alternatives.

Perhaps one such transport alternative was eliminated — at least temporarily — in Adelaide between 1974 and 1976, when the South Australian Government took over private bus operations. This takeover provides a rare opportunity to examine the impact of "nationalisation" of a service previously provided by private enterprise. The consequences of the takeover indicate important considerations for urban transport planners.

First, the Adelaide experience demonstrates Government provision of what were formerly privately run services, was achieved at the cost of a substantially increased deficit.

Second, the social objectives implicit in the takeovers may have been "adequately" met by lower subsidies to private operators, than to the State Transport Authority (the Government bus operator).

Third, Government intervention may cause over-expansion of services. While we are unaware of the actual "optimal" level of service, the resulting excessive tax burden from such over-expansion may make society worse off than non-intervention.

Government provision of what were formerly privately run services was achieved at the cost of a substantially increased deficit.

Fourth, the increased tax burden resulting from the takeovers becomes increasingly difficult to finance in periods of depressed activity.

Finally, even if it were admitted that some Government intervention in transport operations could be justified, this intervention may be achieved more efficiently without Government ownership (e.g. by subsidies to private companies).

Government intervention

Reasons for Government takeover of privately operated transport services may:

- be politically motivated. In Adelaide, the private operators predominantly served outer urban areas. These areas were often swinging electorates, so that the improved services to these areas under Government operation were politically beneficial to Government.

- be motivated by Government
perception that a public transport system has benefits for society, e.g. because of the detrimental environmental impact and wasteful energy consumption of private cars.

- be motivated by union pressure on Government; by the Government employee union (to boost membership) or by the private company employee union members (to obtain better pay and conditions under Government operation).
- reflect a belief by Government that the free market has failed to produce the optimum level of service — whatever that level is guessed to be.
- reflect an altruistic desire by Government to meet social needs, that is, to assist persons with no private transport because of insufficient income, or physical disability.

These factors may have played some part in the South Australian Government decision to take over private bus operations in 1974.

Private bus operations

In 1974 Adelaide’s bus services consisted of 15 private operators and the Government service provided by the State Transport Authority.

The financial data indicates that in 1972/73 private bus operators were able to operate (presumably profitably) on two-thirds of the per kilometre revenue of the STA — the level, incidentally, on which STA ran a deficit.

Major reasons for this disparity were the lower employee remuneration and higher productivity of the private operators.

Specifically, in 1974 private bus drivers were paid Transport Worker’s Union (TWU) award wages. (It was only in rare cases that they received significant over-award payments). As a consequence, wages in privately run services were about four-fifths the wages of the STA employees who belong to the Australian Tramway and Motor Omnibus Employees’ Association. Also, STA employees received four weeks annual leave as against the three weeks of those in private employment.

Productivity of private operator services was assisted by the use of part-time labour in peak periods. Also, employees doubled as drivers and clerks or maintenance workers, thus overcoming the peak hour problem inherent in such service industries. To some extent labour productivity was higher because some labour (notably owner-operators) worked longer hours than Government labour.

The overall effect of the wage and productivity differences was that labour costs per kilometre in private operations were only 69 percent of STA costs in 1972-73.

Thus, while private operators provided 40 percent of the level of STA service in 1974-75, they were able to maintain this level of service with about 23 percent of the STA work force. With the takeover of private operations, however, productivity of the industry overall declined because of the spread of STA work rules to ex-private employees. Similarly, STA remuneration was spread to ex-private employees, increasing the wage bill per employee.
Even the pre-1974 transport environment was influenced by Government intervention. In order to obtain a Government licence, private operators were required to provide weekend and evening bus services. However, given the low patronage experienced in these periods, services were kept to the minimum required by the licence. The higher labour productivity, lower remuneration, and the lower level of service to the public (by eliminating services which cost more to operate due to time-and-a-half or double-time pay) enabled private operators on two-thirds or less of STA's unit revenue to operate in "the black". This contrasts with the deficit-ridden operation of STA.

Thus, the bus company takeovers meant the cost advantage of services on ex-private routes was lost. Services, previously at least marginally profitable, due to a matching of low cost to the low revenue, were now less viable. The total cost of providing bus services to Adelaide rose dramatically.

Of course, there were benefits from the takeovers. For instance, the co-ordination of bus services was facilitated as there was now only one management team overseeing all activities.

Government ownership also made possible services which would not have been profitable for private operators.

What we should question, however, is whether the improved quality and level of Government service is justified by the extra cost, especially as we (typically) don't expect the fare box to cover all these costs.

**Fare policy**

Up to 1974, STA fares were implicitly set at levels which ensured the viability of private bus companies. With the takeover of private operations, this constraint on decision-makers — in particular, on politicians — was removed: the adjustments in fares quickly fell behind the rate of inflation. The removal of the constraint on decision-makers was important because the "high" inflation rate experienced at the time may have made it difficult to increase fares given patron and political aversion to increased charges. This was, of course, another distinction between Government operations and private businesses as the latter need to increase prices if they are to remain viable.

**The result of the takeovers was that the cost of providing Adelaide bus services increased significantly.**

Despite the increasing subsidy element in the fares after 1974, patronage on buses continued to decline; patronage has risen only slightly in the last three years. The decline in the real fare level which simultaneously occurred was unlikely to be perceived by consumers (who only typically respond to nominal price changes). Consequently, while the increasingly subsidised fares did not lose patronage, neither was patronage attracted. Thus, nominal revenue levels may have been preserved but the gap between revenue and expenditure widened.

Further, the patronage levels that were achieved result in part from a significant improvement in overall service — with its inevitable impact on costs of operation.

It may be argued that the lower fares following the takeover may be seen as an avenue for directing assistance to the
disadvantaged and others dependent on buses. (But why the subsidised fares to other patrons?)

However, this should not be taken to imply that subsidised Government-owned operation is the best solution for such objectives.

The Government can exercise controls or provide subsidies without going to the lengths of Government ownership. The private bus services were supplied at lower cost than STA services and they could, therefore, financially sustain a lower level of patronage for a given standard of service. Further, there may be alternative transport forms or arrangements preferable to both the disadvantaged and the public who pay for the system through taxation.

Privatisation of some Government-provided services may serve the public interest more efficiently

As Government provision of services is more costly and subsidies are likely to continue to rise, the additional contribution by the public is in need of review. This is especially the case now, given rising costs, a lower tax base, and the possibility that alternative transport arrangements may be available at lower cost than that presently provided.

The Adelaide experience provides a case study for decision-makers in cities such as Sydney and Melbourne, where public transport deficits, already high, are continuing to rise. There are still private operators in these cities, and certainly decision-makers should be wary, in view of the Adelaide experience, of proposing takeovers. In fact, privatisation of some Government provided services may serve the public interest more effectively.

The current Government bus deficit in Adelaide is a substantial subsidy to bus transport users. It should be up to the proponents of subsidies to show that the services would be below desirable levels in the absence of any form of Government intervention.
Air Line Deregulation: The Pleasures and the Pain
by Peter Samuel

Deregulation of U.S. air lines has meant improved services, competitive pricing and more employment.

Before deregulation there was really only one way to fly Washington, New York — by Eastern’s hourly shuttle. True, there were a couple of other airlines which flew the route, mostly as feeders to their long-distance flights out of Kennedy or La Guardia airports in New York, but Eastern had the lion’s share of the business between the financial and governmental capitals of the country, an effective monopoly.

Today that bread and butter business is split three ways. Eastern is still by far the biggest, but two newcomers are well established competitors — New York Air and People Express. The first came in imitating Eastern’s hourly shuttle. NY Air offered flights hourly on-the-half-hour against Eastern’s on-the-hour flights, and they tried undercutting Eastern’s $59 (all values are US dollars) fare. People Express was the super-discounter, starting service on the 210 mile route at $29 peak periods and $19 off-peak (since raised to $35 and $23).

Air Line deregulation has resulted in more service, price competition, entrepreneurship enabling new options and choices.

They quickly got the bulk of what the others rather disparagingly call the “backpack brigade”, the students and others paying for themselves.

For the expense account business, the competition is between Eastern and NY Air, which soon discovered there was no custom to be gained by them in discounting. They quickly went from offering a VW cheapie service to providing a Mercedes style transport, offering, with luxury seats, champagne and other frills, appealing to those who felt the Eastern shuttle was like a crowded commuter bus, and charging more.

A fourth carrier edging into the business is Air Florida which offers three flights a day each direction, Washington — White Plains, New York. White Plains is 30 miles north of Manhattan but rather convenient for people going to Westchester County (to IBM’s establishments or Readers Digest, for example) or Western Connecticut.

Eastern deny they have suffered from competition. The upmarket NY Air and Air Florida have made flying a bit nicer and more convenient for those who can afford their $80, $90 one-way fares, perhaps taking a bit of traffic away from executive jets and a slice off Eastern, but probably generating new travel. Downmarket, People Express may have been taking some traffic off the roads, out of Greyhound buses, for example, and off the Amtrak trains, but have
There has been "a prodigious gain" in productivity.

arguably been generating a lot of new travel — young people dashing home for a weekend, aunts visiting families, etc., who could not have afforded the time or money to travel otherwise.

This is an example of deregulation in a corridor I know personally, having lived between those two cities these past four years and having travelled the route every conceivable way myself.

What I have seen is more service, price competition, entrepreneurship to offer new options and choices — resulting in an improved range of service offerings and prices to suit different needs — good competition. I am sure that with the extra travel generated by services and prices that suit peoples' diverse needs, there are also extra jobs created to service those needs. It is a positive sum game as they say, a change that harms almost no one but helps a lot of people. So much for personal anecdote.

The big picture

It is not easy to generalise about the overall national impact of a change of airline policy in the world's largest, most air-oriented country. How to disentangle the impact of deregulation from the impact of other changes which have occurred simultaneously — higher fuel prices and a major economic recession, for example?

There have been a number of studies and reports, however, that have attempted to measure the impact of deregulation and they should be briefly reviewed here. Laurits Christensen Associates report (see "Regulation" magazine, December, 1982) outlines what has happened to airline productivity since deregulation. It dates deregulation to 1976, when the Civil Aeronautics Board (CAB) began to allow competitive pricing, new services and new airlines.

From 1970 to 1975, airline productivity grew at an annual 2.8 percent. Between 1976-80, after deregulation, airline productivity grew 5.1 percent p.a. These are total "factor productivity" estimates, putting total airline "outputs" (passenger-miles weighted by class, ton-miles of freight, and airmail) against all airline inputs (labor, aircraft, fuel, terminal equipment, purchased materials, contract maintenance, advertising, ticket commissions). These numbers, estimated airline by airline and then deriving weighted averages for the industry, indicate an overall 80 percent improvement in average annual productivity growth after deregulation.

It is as the Christensen report says, "a prodigious gain".

That report looks at various possible sources of the productivity improvement, apart from deregulation. There were no great changes in plane improvements in the latter period as compared to the former.

"Based on the evidence .... we conclude that de-regulation is leading to a more efficient airline system."

The years 1970, 1975, 1980 were all recession years so the two periods cover similar business cycle conditions.

A major factor in improved productivity, Christensen finds, was
higher load factors (more seats filled) in the post-deregulation period. With greater freedom to alter prices and schedules, off-peak and off-season traffic improved, reducing the waste of empty seats. Aircraft utilisation improved, planes being flown more hours per year. Some aircraft were “re-seated” with denser seating. Substantial statistically unexplained increases in productivity remain after allowance is made for all these improvements, suggesting better use of labour and better managerial responses to the market place.

The “Essential Air Service Programme” demanded by the Congress in its Deregulation law of 1978 has maintained services to remote communities.

Neither is surprising given the cost-plus mentality that is nurtured by a regulated environment. As long as management is protected from real competition by regulators and as long as prices are approved on the basis of some generally acceptable profit mark-up over cost, there is no real incentive to contain costs and little incentive to take risks developing new markets. If there is a uniform profit mark-up ordained by the regulators, then to hell with entrepreneurship! Why not enjoy the quiet life of managing the shop as it is?

The Christensen report may understate the benefits of deregulation. First, it leaves out of account completely new airlines (because these cannot figure in a before- and-after study) and these have been a major source of productivity improvement and new service in themselves. Second, the 1980 cut-out limits its value since many of the benefits of deregulation have come since then, and indeed are still to come as the US airline industry continues to be shaped by a competitive market place.

The airline regulator on deregulation

The airline regulator itself (the CAB) has evaluated deregulation.

“Competition and the Airlines”, authored by Daniel Kaplan and David Graham, is a staff report by the CAB, dated December, 1982, which evaluates deregulation. A 218-page book, “Competition and the Airlines”, is positive about the effects of deregulation, though its conclusions are blandly expressed in good bureaucratic style. Its last sentence is: “Based on the evidence we have presented in this report, we conclude that deregulation is leading to a more efficient airline system”.

Other main points are:

- Airlines post-deregulation, are tailoring routes better to match traffic and a greater share of connecting trips are now made on-line, that is without the need to change lines.
- Commuter airlines have replaced large jet-operators in many of these short-haul markets. In these cases, there has been an average 25 percent improvement in flights. Of course some places have suffered reduced service, but they have been outnumbered by places with better service because of more suitable commuter planes taking over from large jets.
- The “Essential Air Service Programme” demanded by the Congress in its Deregulation law of 1978 has maintained service to remote communities, and at considerably less cost than the subsidy programme it replaced.
- Pricing flexibility is allowing higher load factors to be achieved, and lower
costs, while providing better service.

- New airlines entering the business have substantially lower costs than the established airlines. In retrospect, regulation reduced many incentives to efficiency, leading to inflated costs.
- Convenience of service has improved in some places, diminished in others, but on average there has been significant improvement.
- The established airlines are under competitive pressure now to improve their productivity.
- Market concentration is declining with small and new airlines generally, though not always, increasing their market share. Price competition and pressure on profit margins has limited schedule rivalry.
- Price-setting power varies, but with free entry of rivals possible is not a major problem even on single airline routes.

Theory or practice

Economic theory generally indicates that free markets allocate resources better than government planners, because of the incentives to efficiency markets offer, and the penalties for inefficiency, and because of the constant flows of information they provide to all participating. That is why, in short, the USA has a higher standard of living than the USSR, West Germany, than East Germany, and Taiwan and Hong Kong have superior economies to communist China.

In the US, airline deregulation and free markets were proved empirically as well as in theory, even before federal policy was freed up. In California and Texas, intrastate air service has been beyond federal jurisdiction, and the unregulated environment and the competition of companies such as Air California, Pacific Southwest Airlines, South West Airlines and Texas Air provided a live specimen of deregulation, politically more persuasive than all the theory ten thousand economists could muster.

The pain of it

Deregulation of the airlines has been a painful business, and more pain is certain in the future. Major established airlines have lost billions. One, Braniff, has folded. Another, Continental, has exploited the protection of bankruptcy laws to break its labour contracts, firing all its 12,000 employees and rehiring some 4,000 at half the wages they were paid before and demanding more hours of work and greater flexibility of assignment. Eastern has told its employees they will have to accept tougher conditions or the airline will fold. Most other big airlines have fired thousands and negotiated wage-cuts and greater weekly work from their employees.

Employment by the big established trunk carriers is down, but overall employment in the U.S. airline industry is at record levels.

And many shareholders and creditors to airlines have suffered too. That is where there is pain.

Employment by the big established trunk carriers is down, but overall employment in the US airline industry is at record levels according to CAB numbers. That is because of the new airlines and the expansion of previous small ones. Small of course is relative. People Express, for example, flies more planes than Ansett or TAA. Its pilots and hostics shepherd passengers on board and handle baggage and sell take-on meals.
and take their fares inflight. And actually seem proud to run such a successful economy show. (They all own shares in the business). At the other extreme there is a bunch of very snooty new high-priced airlines like Midway, Air One and America West, catering specially to the expense account passengers who want lots of room and luxury.

Some of the big airlines have come through stronger and with an apparently bright, profitable future — Pan Am, United, Delta, TWA, Northwestern, American, for example. Julius Maldutis, analyst at Salomon Brothers, says he foresees the industry coming out "very strong and profitable".

No one's future however is assured, and most Americans like it that way. Says Alfred Kahn, head of the CAB in the deregulation years: "We wanted to open up this closed industry to aggressive new entrants and impose very severe pressures on existing carriers to be efficient, to keep their costs in line and to give the public the benefit of those pressures. There is a lot of turmoil, and that is what we intended". (Wall Street Journal interview Oct. 4, 1983).

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Welfare Illusions
by Professor Ross Parish and Lisa Gropp

In submissions to the National Economic Summit, churches and welfare organisations looked at the broader economic issues facing Australia. Some of their proposals could be to the disadvantage of those people they seek to help.

All three organisations adopt a radical redistributionist stance and rhetoric. The ACOSS submission begins with the stark assertion: "Over 2 million people are currently living in poverty in Australia." It goes on to argue that "almost the whole burden (of recession) has fallen on those without jobs and without assets" and states that "the theme of this paper...is designed to build the basis for a just and less harshly divided society". ACOC states that "the churches play a key role in Australian society in alleviating the trauma of poverty through their welfare programmes, and in seeking the correction of injustices which lead to poverty"; and that "the work of the Australian Council of Churches is inspired and sustained by the vision of a JUST, PARTICIPATORY AND SUSTAINABLE SOCIETY". According to AFCO, "unemployment and distribution of wealth are the prime economic problems of 1983. Greater spending...for poor consumers therefore is a key to economic recovery. In recent years, the consumer movement has extended its concerns beyond 'value for money' to a concern with responsible consumption. For example, a concern about greater consumption of food by the poor should be tempered with anxiety about over-eating by many others."

The use of language in these submissions is worthy of note. Consider the statement, "Over 2 million people are currently living in poverty in Australia."

The figure of two million people in poverty is meaningless; it is based on inadequate income statistics and does not distinguish among differing family circumstances...
Poverty is an inherently relative notion, as members of ACOSS would doubtless be the first to admit. It has been given spurious concreteness by the promulgation of an arbitrary "poverty line", defined in dollars and cents. The reason for doing this is, of course, to facilitate further phony quantification, viz. counting the "poor". The figure of 2 million is meaningless, being based on inadequate income statistics, and not distinguishing among the differing family circumstances of persons with similar money incomes. For example, it includes many students and young people who could not in any reasonable sense be called poor.

Claims that Australia's tax system is one of the most inequitable in the Western world are not sustainable.

Another interesting verbal quirk is to describe groups to which many of the poor or the unemployed belong as being "at risk", a phrase which suggests that being poor or unemployed is a calamity that just happens to people — like catching the measles.

A misplaced concreteness characterizes the use of the words "justice" and "equity". Another bald statement from ACOSS: "Australia's tax system is one of the most inequitable in the Western World". Now, not only is the nature of equity in taxation disputable, but there is also disagreement among public finance experts as to the incidence of taxation. The statement is simply not sustainable.

Economists speak of "horizontal" and "vertical" equity, the former referring to the like treatment of like, the latter to the imposition of taxes according to ability to pay. An important principle, overlooked by many tax reformers is that the market tends to eliminate horizontal inequities. If one asset yields taxable income, and another non-taxable capital gains, the price of the latter tends to be bid up so as to equalize, ceteris paribus, the yields of the two assets. Those who own the assets when they first receive favourable tax treatment gain, but subsequent owners pay for the favour. Elimination of an anomaly to which the market has adjusted is, in fact, inequitable, subjecting individuals to arbitrary windfall losses or gains. The case for eliminating such anomalies must be made on grounds of efficiency, not of equity.

At a philosophical level, proportional and progressive taxation both have their proponents. In common with most other governments, our's has espoused progressive taxation. But how progressive should the tax structure be?

This is an extremely important question, in principle and in practice, involving the balancing of judgements regarding the desirability of redistribution and the disincentive effects of taxation, but it receives scant serious attention. There seems to be a consensus, implicit in the documents under review and in media commentary, that the tax system should be more progressive than it is. This emerges from numerous particular recommendations for changes, including the plugging of loopholes, the effect of which would be to make the system more progressive. For example, the change from tax deductions to tax rebates for various classes of expenditure was near-universally hailed as an advance in equity. The fact that the rich received a bigger deduction per dollar spent on, say, education, was noted; the fact that they also paid more tax per dollar was ignored.
Similarly, when tax increases are mooted it is urged that they be levied on those best able to pay, it being ignored that a uniform percentage increase in the tax levied at all income levels achieves exactly that by working through the existing structure of progression. Many seem not to be content that the system be progressive; they want it constantly to be becoming more progressive.

The Costs of Transfers

ACOSS argues that 93 per cent of its proposed $1.5 billion increase in social security expenditures "represents a transfer of income rather than final expenditure", and that "the poor out of necessity will spend their pensions and benefits and allowances on basic necessities in the private sector". The implication is that transfers from the non-poor to the poor do not constitute a real cost, and, moreover, will provide a Keynesian stimulus to the economy since, in some measure, spending by the poor will replace saving by others.

With changing community attitudes there has been a substantial growth in fraud and cheating among welfare recipients.

While a transfer, per se, is not a real cost, the act of transferring does involve real costs. These include collection and disbursement costs incurred by government, taxpayers, and beneficiaries. In addition, measures will be taken by taxpayers to avoid or evade paying some of their taxes, and by potential recipients of benefits to make themselves eligible to receive them. Then there are the adverse effects on work incentives which impinge on both taxpayers and beneficiaries. The magnitude of these real costs is conjectural, but may be very substantial. It has been estimated that in Canada it costs a dollar in real costs to raise a dollar in revenue, so that public expenditures should be costed at $2 per $1 spent — and this estimate does not include costs incurred by beneficiaries.

Social services, whether paid in money or in kind, have to be rationed among would-be recipients. Except when eligibility is based on innate characteristics such as age or sex (or on luck, as in the drawing of lots), people have an incentive to make themselves eligible for handouts by modifying their behaviour — principally by working less or by altering their family status or living arrangements. In doing so, they will incur costs so long as these are less than the benefits to be garnered.

ACOSS recognises the work disincentives provided by many programmes. It proposes that income tests be eased to alleviate the problem. While there may be merit in some such changes, easing the eligibility requirement ignores the need to ration services by pretending that the budget can be expanded as needed to meet the greater demand. Nor does it necessarily remove work disincentives: it may simply change the level at which they operate.

With changing community attitudes there has been a substantial growth in fraud and cheating among welfare recipients. For example, the Housing Commission of N.S.W. in its 1982 Report expresses "mounting concern...for the number of cases coming to notice of applicants and tenants who are attempting to or have defrauded the Commission by non-disclosure of...income...Deception of the Department of
Social Security is also often involved in respect of receipt of Supporting Parents, Widows, Unemployment Benefits and so on." The Commission notes that "detections arising from present procedures are probably only a small fraction of the real number of fraudulent claims". This admission — doubtless also applicable to many other agencies — highlights the degree to which the welfare system relies upon honesty. None of the submissions under review mentions this problem.

Public Housing

Housing is singled out by ACOSS as an area where economic growth and social aims are compatible. "Fortunately housing is one sector of industry in which investment not only meets a real social need but also generates the conditions for a substantial increase in employment." Since, according to ACOSS, home owners already get a disproportionate share of Government housing assistance, and because "the type of households in housing need over the next decade, the young, single parents, the aged, require a housing tenure and type which is cheaper and more flexible than home ownership", emphasis should be placed on public housing. ACOSS believes that "publicly owned housing for rent is the surest way known that low income housing consumers can obtain good housing on a secure basis at the right price. All other forms of housing assistance have much less control over the supply, security and cost".

All of the virtues claimed for public rental housing are questionable.

The basis of the assertion that home owners receive a disproportionate share of government assistance is not clear. In pointing out that the estimated cost of the mortgage interest rebate scheme exceeded the public housing budget, ACOSS implies that a simple aggregate dollar comparison is appropriate. Since public housing constitutes only about 5 per cent of the total stock (ACOSS's own figure), such a basis for comparison is ridiculous.

All of the virtues claimed for public rental housing are questionable. Is it cheaper than private rental housing? Undoubtedly so for those fortunate enough to get priority access to it, but not necessarily for those who have to join a waiting list: the costs of waiting may make up much of the difference. One of the costs of relying on cheap public housing is becoming "locked in" to a particular residence. If changing houses means losing rights you have acquired by waiting, and either joining another waiting list or paying a private "market" rent, then it becomes costly to change houses. Job mobility is reduced and people pay for their cheap housing by forgoing opportunities for advancement, and the community suffers through forgone efficiency in resource allocation. Furthermore, the lower rents of Commission housing are to some extent an illusion, since its perceived quality is often lower than private housing. Certainly a large number who are eligible have not joined the waiting lists.

Is it more secure? It would seem so, but this is a questionable virtue since it means that a considerable proportion of the public housing stock is occupied by families that have ceased to meet the eligibility criteria for public housing. That the authorities have failed to grasp this nettle, makes hollow the claim that there is greater "control over the supply" with public housing. It also follows that public
housing is a wasteful method of assisting the poor.

The waiting list for Housing Commission flats and houses of about 100,000 families is cited as evidence for the need for more public housing. This is nonsense. As noted above, some method of rationing free or cheap services has to be found, and the waiting list is the major chosen instrument. It serves to raise the real "price" closer to the private market price. Imagine that the government sold limited quantities of food at half price through its own shops. There would surely be long queues for this bargain, and quantities per person would have to be limited. The length of the queues would tell us nothing about the need for food: it would tell us something about how people were willing to trade off time for money.

Sharing the work

ACOSS supports the implementation of "active manpower strategies" and job creation programmes which "could be used to stimulate local economic development in innovative areas, including leisure activities, personal services, specialist manufacture of socially useful items such as aids for the disabled". What warrant have we for believing that such innovative areas exist, known to the government (and ACOSS) but not to the private sector? If the "innovative" areas are not profitable, but "socially desirable", they will demand perpetual subsidization, again at the expense of the taxpayer. The net effect will be to transfer investment (and long-term employment opportunities) from the private sector to unprofitable, inefficient government projects.

The notion of "job creation" deserves critical examination. One way of creating jobs is having men dig holes and refill them. Apart from any value as a training or work experience that hole digging and filling may have, such a programme is worse than useless. The men might as well be paid the wage and given their leisure. It is perhaps not so widely recognized that creating jobs by suppressing labour-saving innovations is just as silly as the hole-digging enterprise. The only difference is that the extra employees receive a wage, paid for by consumers, rather than a dole, paid for by taxpayers.

It is a pity that ACOSS and other concerned groups do not turn their attention towards correction of the causes of unemployment.

It is a pity that ACOSS, and other concerned groups, do not turn their attention towards correction of the causes of unemployment. When minimum wages are set and wage rises granted higher than marginal productivity, the demand for labour will fall. It is imperative that real wages be flexible downwards, and that wage differentials be permitted to reflect labour market conditions, if unemployment, particularly among the young and work-inexperienced, is to decline. It is odd that welfare groups shy from this important point, especially as downward flexibility of wages would, as well as promoting employment growth, ensure that those in work shared the burden of recession.

Footnotes


The authors are indebted to L. McGregor and C. Hogbin for helpful comments.
The Politics of Media Studies
by Ken Baker

A comparative newcomer to the academic arena, media studies is a rapidly expanding field. Numerous tertiary institutions now run courses in this area and over recent years Victorian and South Australian schools have offered it as a subject (internally assessed) at H.S.C. level.

A key requirement of any course of study is that it be backed by a sound body of literature. My concern in this article is that the literature currently made available to teachers and students of the media demonstrates serious inadequacies. Some of it is heavily polemical and poorly researched, expounding worn-out theories which obscure rather than illuminate the important issues which media studies should be addressing.

Media Studies should aim to provide students with the theory and methods necessary to analyse the role of the media in a liberal democracy.

One of the main objectives of media studies is to provide relevant knowledge to those who will maintain a continuing interest in the media — often as participants. Another role is that of media watcher, providing ideas and research that set the terms for public debate about the media. If the ideas and research are ill-founded, and I want to suggest that this is frequently the case, then students are not provided with an adequate basis of knowledge and public debate on the media will be ill-informed.

Criteria

The literature of media studies can be judged according to how well it meets certain criteria. In general, in the context of Australian society, media studies should aim to provide students with the theory and methods necessary to analyse the role of the media in a liberal democracy. This entails defining the obligations of the media to the democratic institutions on which they depend for their freedom and assessing how well those obligations are being met. There are a number of more specific concerns that flow from this.

First, there are considerations of objectivity and bias. It is essential if citizens are to arrive at sane, balanced judgements on the performance of public leaders and institutions that the media strive to meet standards of objectivity, fairness and balance in the presentation of news. (See my debate with Henry Mayer on this point. I.P.A. Review, Autumn 1983). Balance, itself, should be considered within the context of liberal democratic values. Thus, by balance I do not mean to suggest that the media should treat the views of a terrorist, for example, as morally equal to the views of a democratic government. If claims of bias are to be of value they should be supported by a sound methodology and systematic evidence.

Second, media studies should examine the major influences on the 'manufacture' of news. This entails an analysis of the relative power exercised by special interests, by governments (in the publicly owned media), by proprietors, editors and journalists. Some criteria for
assessment of whether current structures of control serve or harm the public interest would also seem to be required.

The texts as a whole reveal more about the politics of media studies than the politics of the media.

Relevant also is a recognition of the particular institutional interests of the media, keeping in mind their points of potential conflict with the public interest. To what extent, for example, does the media's self-justification in terms of the public's right to know conflict with the rights of individuals to privacy and the need for a degree of confidentiality in government? Does the media's dramatised notion of what constitutes a 'good story' undermine the achievement of a rational politics?

In the space of a single article it is not possible to review the whole field of media studies to assess how well these issues are being addressed. Instead, I have chosen to base my comments on several of the key texts on the Victorian H.S.C. syllabus:

Trevor Barr
Reflections of Reality: The Media in Australia, Melbourne, Rigby, 1977

Humphrey McQueen
Australia's Media Monopolies, Melbourne, Visa, 1977

Carl Gardner (ed)

Keith and Elizabeth Windschuttle (eds)
Fixing the News: Critical Perspectives on the Australian Media, North Ryde, Cassell, 1981

Henry Rosenbloom
Politics and the Media, Fitzroy, Scribe, 1978

Patricia Edgar
The Politics of the Press, Melbourne, Sun Books, 1979

While the quality of these books differs (Barr's is probably the best), all attempt general analyses of the politics of the media or the press. The problem, however, is that the texts as a whole reveal more about the politics of media studies than the politics of the media.

The media and society

It is notable that the predominant theory of society which emerges from these books bears strikingly little resemblance to the realities of a liberal democracy. Cut back to its basic elements the theory is this: In capitalist societies industrialists and financiers, of which the media proprietors form a part, wield absolute power. Institutions such as the media are the ideological instruments of this power, designed to disseminate ideas that serve the interests of the Establishment. The only way of freeing the media from the stranglehold of conservative forces is to abolish the current structure of private ownership and hand more power to professional journalists, according to this theory.

McQueen, for example, analyses the Australian media in the context of "monopoly capitalism ..., a system based on class exploitation", in which institutions such as Parliament are no more than facades concealing the power of U.S. imperialism, itself "the enemy of every creative, decent human possibility". 

Media Politics and Culture and Fixing the News are similarly infused with the language of class warfare, the latter declaring itself in its opening lines to be a political act in a long term "guerilla campaign against the media barons". Within the framework established by these books the demand for more "objectivity" and "independence" in the media is really a demand that the media set about exposing the oppression and
inequities which the authors believe are intrinsic to a capitalistic society. Anything which fails to do this is immediately dubbed "conservative propaganda".

Bias

All the media studies texts are agreed on one thing: that the media are dominated by a conservative bias (pro big business, pro uranium mining, promoting a Cold War mentality in International relations, anti-radical feminism, anti A.L.P. etc). One should be sceptical regarding global assertions about something as vast in volume and diverse in output as "the media". Little attention, for example, is paid in the texts to the distinction between the quality press and the popular press. Little attempt is made to analyse the range of viewpoints put in the various media. Methodologically most of the studies are weak. The assumption that society is dominated by a monolithic conservative Establishment wielding monopoly power will almost inevitably produce a simplistic conception of the media as a monolithic conservative entity. In fact the media texts rely almost solely on selected examples to illustrate this preconception rather than on systematic evidence to prove it.

The assumption that society is dominated by a monolithic conservative Establishment wielding monopoly power will almost inevitably produce a simplistic conception of the media.

One example of this selectivity is the enormous amount of attention devoted to analysing anti-A.L.P. bias in media coverage of the 1975 Whitlam dismissal and the consequent federal election. Indeed it is hard not to conclude that this was the single most important formative influence on the coming age of media studies in Australia. Against this torrent of material on the media and 1975 there is a complete absence of any analysis of the media's treatment of the government during the seven years of the Fraser administration.

The consensus among the H.S.C. texts on the media's conservatism fails to reflect the fact that the view is highly contentious. Paul Johnson in The Spectator, Anthony McAdam in Quadrant, Edward Pearce in Encounter, Richard Grenier in Commentary all regularly publish articles which effectively challenge this view. Barr laments the pro-war bias in the media during the Vietnam era, but fails to mention the American study of CBS News reports which suggests the opposite conclusion.*

The A.B.C. is also included in this blanket view of the media's conservatism. Rosenbloom claims that despite the efforts of some progressive journalists, the A.B.C. has remained firmly under the thumb of reactionary governments, commissioners and bureaucrats. Characteristically, Rosenbloom, like all the critics, avoids any real analysis of the content of A.B.C. programmes to back up his claim. Contrary to Rosenbloom's assertion, the evidence that exists suggests that a number of ABC programmes dealing with current affairs display a pronounced left-wing bias. (See my article, "Bias in the A.B.C.", I.P.A. Review, Winter, 1983)

Several of the books assert that the

media is invariably hostile to radical political demonstrations. By focusing on the disruption caused by direct action politics and not the justified reasons for protest, the media, it is argued, fail to treat demonstrations fairly. While it is true that the media do dramatise reality, it is also true that protestors dramatise political issues (the use of street theatre is illustrative of this).

Demonstrations are designed to gain publicity and not to serve as venues for rational political debate. To this extent there exists something of a symbiotic relationship between the media and political protest: the media are interested in reporting disruption, demonstrators are willing to create disruption in order to be reported.* The media studies' texts which are the subject of this article fail to recognise this.

Ownership and control

As I have stated, the single most common explanation for the image of reality produced in the media is that it is determined almost solely by the class interests of the men who own the media, the "media barons". There are four main weaknesses to this theory:

• It fails to take sufficient account of the split between ownership and management which is a feature of most large, complex, modern organisations. News management in the media is principally under the control of editorial staff, with proprietorial interference the exception rather than the rule. (Consider the logistics involved in the "four media barons" even managing to monitor the vast output of Australia's newspapers and television and radio stations.)

*On the relationship between political extremists and the media, see Richard Clutterbuck. Violence and the Media.

The evidence exists that some ABC current affairs programmes display a pronounced left wing bias.

• There is a tendency in media studies' books to assume that because the commercial media are dependent on advertising they must therefore be vehicles of capitalist ideology. This argument confuses the pressure to make profits with a pressure to produce propaganda. It fails to come to terms with the effect of markets on the distribution of power in society. If anything, the commercial system transfers a degree of power to consumers who choose whether or not to buy a particular newspaper or watch a particular television programme.

• The theory cannot account for the range of ideas espoused in different newspapers owned by a single proprietor: say the radical American paper, "Village Voice", and the more conservative "Australian", both owned by Rupert Murdoch.

• The theory virtually ignores the influence of those groups most directly associated with shaping the news, namely journalists and editors. While Edgar devotes a considerable part of her book to the views of journalists on the media, there is no systematic analysis of the ideologies of editors and journalists and the independent influence these exert on the process of news formation. The failure to analyse extensively the values of journalists is a serious omission, particularly given Rosenbloom's passing comment that journalists write first of all to win the...
approval of their colleagues (and not the approval of proprietors). It follows that the things a journalist’s colleagues approve or disapprove of will have a considerable influence on the way he reports the news.

Certainly journalists wield less economic power than proprietors, but they do possess considerable cultural power in the same way that academics, school teachers, clergymen, lawyers, film makers possess power or authority, in the production, interpretation and dissemination of ideas and symbols. Their influence lies in promoting particular interpretations of the world — what is of value, what is worth defending, what should be changed.

There is not the space here to develop at length a theory of the media based on the cultural power of journalists, but there are three points worth noting.

First, a theory of the media should take into account the characteristics of the journalistic profession. It seems almost in the nature of journalism to be intrusive and irreverent, to be impatient with the constraints of convention, to be in restless pursuit of new dramas and scandals. None of these characteristics suggests the conservative sensibilities which the major media analysts assume pervade the media.

Second, the ideas about society which journalists in the quality media disseminate and popularise are not those produced by media proprietors or the business establishment, but increasingly are those produced predominantly in universities, particularly in the social sciences. There is no reason to suppose that the ruling ideologies there are conservative.

Third, there is no doubt that it is in the public interest to preserve a free and independent media. Equally, however, it is important not to associate this with demands for more power for journalists. Checks on the power of the media are just as necessary as checks on the power of politicians, unions or business.

The influence of journalists lies in promoting particular interpretations of the world — what is of value, what is worth defending, what should be changed.

To the extent that the texts which I have taken as the subject of this article are representative, there are major inadequacies in media studies — the heavily polemical and partisan approach to the subject, the flimsy body of research on which theories are based, and the failure to address important issues (those relating to conflicts between the institutional interests of the media and the public interest, and the cultural power of journalists, for example).

Better media studies

If media studies are to avoid accusations of being simply a vehicle for political propaganda, the quality of the supporting literature must be improved. It is not hard to sketch some of the improvements which should take place.

- The development of a sound methodology to deal with values and agendas in the media and the collection of systematic evidence to test generalisations such as so-called conservative or left-wing bias. At present students are often confronted by unsubstantiated assertions by people whose own value positions are often very clear.
• Consideration of media responsibility in a democracy and the role of major media institutions in the working of representative government. (What is the consequence for relations between government and the people of the fact that the media are not simply neutral channels for conveying information?)

• A sound analysis of the role of market controls in influencing the values and beliefs provided through the media. A related question is who controls publicly-owned media operations outside the market context.

• Studies of the distribution and mechanisms of influence within media institutions between proprietors, editors and journalists in both market and non-market media institutions. A study of the impact of by-lining on devolving power and responsibility from editors to journalists would be interesting in this regard.

• Studies of the ideologies used by editors and journalists to justify the way they carry out their roles and the influence these ideologies have on the reporting and treatment of substantive issues.

If media studies are to avoid accusations of being simply a vehicle for political propaganda, the quality of the supporting literature must be improved.

These questions are important ones and they indicate that we need not accept as inevitable the present depressed quality of much of the literature in media studies. A thoroughly professional and scholarly approach to understanding the media of communication could make a real contribution to the quality of democratic debate in Australia.

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Referenda Proposals
by Professor R. D. Lumb

The referenda, originally scheduled for February, may now be held later in the year. Professor Lumb argues that there are some serious deficiencies in the proposals.

Two of the Referenda proposals have been substituted for a former proposal entitled The Fixed Term Parliament Bill. That Bill would have imposed a specific date near the end of every third year in which all members of the House of Representatives and half the Senate would have been required to face an election.

The flow-on from the fixed term proposal would have been a diminution of the rights of the Senate in relation to supply. Moreover, the power of the Prime Minister to call an election at an appropriate time to test public feeling, or where a deadlock (not covered by s.57) had arisen, would have been denied. It may well have been that this was the basis of the decision of the Hawke Government not to proceed with that Fixed Term Parliament concept, although the predictions were that it was not likely to gain the support of the Opposition and therefore its success would have been very much in doubt.

The absence of simultaneous elections was envisaged by the founders of the constitution.

In place of the Fixed Term Parliament Bill two new constitutional alteration bills have been proposed. The word new is not strictly accurate, however, because one of the bills, the Simultaneous Elections Bill, has on two occasions in the nineteen seventies been placed before the Australian people for decision. On those two occasions it has not received the requisite support as required by s.128 of the Constitution.

Perhaps a preliminary point can be made on s.128. It is often said that a bill which gains the support of a considerable number of the electors throughout Australia i.e. a majority of those voting, should be sufficient to bring about an alteration. However the founders of the Constitution were very sensitive to the needs and wishes of the representatives of the smaller States. Indeed they saw in the requirement that a constitutional alteration proposal must receive the support of a majority of electors in a majority of States (as well as an overall majority throughout Australia), an essential protection for the Federal system of government.

The smaller States through their peoples and legislatures were giving up their powers and autonomy to the new Federal institutions on the basis of a document agreed upon after long discussions at constitutional conventions. It was not therefore to be supposed that this document could be altered through a majority of electors who might be concentrated in the south-eastern corner of Australia irrespective of the wishes of those in the outlying areas.

Consequently it will be necessary for the five alteration bills to receive approval.
not only of the majority of electors but a majority of electors in four of the six Australian States. (In passing it may be noted that territory voters also have a right to vote but there is no requirement of a majority in those territories.)

Simultaneous elections

Let us now look at the main proposals in turn. The Simultaneous Election proposal would have the effect of requiring the elections for the House of Representatives and half the Senate to be held at the same time. Senators would hold office for two terms of the House of Representatives and not for a fixed term of six years which is the present position (leaving aside a double dissolution). The bill would eliminate therefore any residuary discretion vested in the States' Governors to issue writs at particular times decided upon by the State governments which advise them on the matter. The flexibility in timing which is a part of the present constitutional system will be eliminated.

The main reason for successive governments wishing to introduce the simultaneous election proposal is to escape the verdict of the people at a half Senate election.

It should be noted the discretion of the State Governors to issue writs for election for senators in their States was under discussion during the time of the constitutional crises in 1975 when it was thought that a half Senate election might be called by the then Prime Minister, Mr. Whitlam, to resolve the constitutional crisis. It was also a potent factor in the so called Gair affair in 1974 when the Governor of Queensland issued writs on the advice of the government of the State at a time before they were to be issued in the other States thus preventing the creation of a sixth vacancy (Senator Gair's place) in that State for the planned half-Senate election. (In actual fact the half-Senate election was overtaken by a double dissolution).

The proposed alteration therefore does have a significant effect on the structure of the Senate as a States' house because it means that the writs would automatically be issued by the State Governors; in other words there would be a mandatory requirement for their issue at a particular time decided upon by the Federal government for the issue of writs for a House of Representatives election, advice in relation to which would ordinarily be accepted by the Governor-General. For those concerned with the maintenance of the Senate's institutional structure as a States' house the change therefore is retrograde.

More importantly however it could be pointed out that the change is one of political convenience rather than being based on constitutional principle. It means that a constitutional requirement of a "same day" election for both houses is made mandatory when there may be certain reasons of a political nature for the right of the electorate to be able to pass judgment on a government at a half Senate election where issues may be different from those at a House of Representatives election.

Furthermore, it can be pointed out that simultaneous elections are possible under the present system by the calling of a premature House of Representatives election although at some point of time the elections for both Houses might get
out of kilter: this would result from the calling of a double dissolution to resolve a constitutional crisis. The absence of simultaneity for later elections after a double dissolution is envisaged by the founders of the constitution.

A double dissolution of course, by its nature involving an election for the whole of the Senate as well as the House of Representatives is not the normal method of election although it has been invoked on three occasions in the last decade. It would be assumed, therefore, that after a double dissolution the pattern of separate Senate elections which might be timed at a period quite differently from that of the House of Representatives (i.e. at any time within one year from the date when the Senators places were to become vacant) would be resumed only to be dislodged by a premature dissolution of the House of Representatives or a later double dissolution.

An eight year term is a long tenure for a politician and seems to be out of accord with democratic traditions.

It cannot be denied that the main reason for successive governments wishing to introduce the simultaneous election proposal is to escape the verdict of the people at a half-Senate election. Indeed, there is a provision to the effect that the present half-Senate election due by July 1985 may be postponed to June, 1986. For that reason it must be stated that it is not based on constitutional principle but on political considerations.

The four year maximum term
The second part of the referendum package is for the extension of the maximum term of the House of Representatives from three to four years. In order to preserve the rotation principle for the Senate with half of the Senate going to the people at the time of the House of Representatives election, it is proposed also that terms of Senators be extended from six to eight years. The rationale for a four year term is derived from overseas practice. It is said that greater stability in Government is achieved by a term longer than three years. The government will be able to plan in a long-term sense without having to think about its policies and programmes for the next election. By the same token it could be said that an inefficient government may lumber on to the end of its term. It may well be that efficiency in government planning is achieved by a four year term. However the main demerit of the proposal is the extension of the terms of Senators to eight years. In so far as the Senate is a democratic house this would give its members a term which is to say the least unusual. An eight year term is a long tenure for a politician and it seems to be out of accord with democratic consensus that an elected member should not have such a length of term particularly as the Senate has considerable powers in relation to legislation.

Advisory opinions
The third referendum proposal relates to advisory opinions. Under this proposal the High Court would be vested with jurisdiction to deliver an advisory opinion on matters brought to it by the Governor-General (acting on the advice of the Government) in relation inter alia to Bills that have been approved by the House of Representatives and the Senate. It can be pointed out that an advisory jurisdiction is exercised by the Canadian Supreme Court but not by the United States Supreme Court.
The Advisory Opinions Referendum does appear to detract from certain basic features of our constitutional system.

The Advisory Opinions Referendum may well turn out to be the most important one for it does appear to me to detract from certain basic features of our constitutional system. The independence of the judiciary and the separation of judicial from legislative and executive powers are such features. The judiciary, and especially the High Court which is the ultimate interpreter of the constitution, must be free from executive and legislative pressures in terms of its adjudication on basic constitutional matters as well of course as on other matters. If they were vested with this jurisdiction the Justices would in some way become assistants to the government of the day in giving opinions on legislative initiatives, but with respect to which certain constitutional doubts may arise. If the advisory jurisdiction was exercised frequently it would mean that the High Court would become overburdened with these matters of advice to the detriment of the litigated cases with which any Court is primarily concerned. At the present time declarations can be sought from the High Court as to whether legislation is invalid or not but, that declaration must be sought at the instance of a plaintiff who has an interest in the matter — who is willing to put his money where his mouth is (although in many cases supported by legal aid). This enables the Court to determine not a question in the abstract but a practical question that is formulated by way of the ordinary procedures of the Court and which enables the Court to interpret the validity of the legislation challenged in the proceedings.

Interchange of powers and outmoded provisions

The final two proposals relate to interchange of powers and to elimination of so called out-moded provisions. Under the Interchange of Powers proposal the legislatures will be able to refer powers one to another. A specific section of the constitution which inhibits such interchange at the present is s.90 which provides that the Commonwealth shall have exclusive power to levy duties of customs and excise. In so far as successive Federal Governments have wished to offload on to the States some revenue-raising powers, it might be argued that this proposal is an attempt to restore some equilibrium in tax raising and tax spending among the partners in the Federation. Presumably it would mean that in practical terms the States would then have to exercise their discretion as to whether they would levy a retail sales tax, a tax which is at present foreclosed by s.90.

What is needed is a fundamental reappraisal of Commonwealth and State powers of finance raising and spending.

However, in my view, this is a mere tampering with the system. What is needed is a fundamental reappraisal of Commonwealth and State powers of finance raising and spending. Certainly it is easier for the Commonwealth to shore up the States’ revenue raising powers by pointing to such a proposal and requiring the State to finance local developments with moneys from such a tax. But that
does not prevent the Commonwealth from continuing to increase the income tax slice of the cake.

I would have preferred to have seen some revenue sharing system incorporated into the Constitution, perhaps by the creation of a Financial Council which would determine proportions of taxes that may be raised by the different partners to the Federation. Retail sales taxes cannot be looked at separately from other forms of revenue raising. It could be argued that the Commonwealth should go the whole way, and, in conjunction with the States, prepare a proposal for the allocation of revenue-raising powers. The present proposal is a mere "band-aid", and one which can adversely affect the economic viability of private enterprise.

In the end result, then, one finds deficiencies in these proposals. Some, of course, are more serious than others. For my part I would select the Advisory Opinions referendum as likely to cause the gravest damage to the constitutional fabric. However, the simultaneous elections proposal detracts from the institutional structure of the Senate, while the 8 year Senators' term could be said not to conform to the democratic ethos that electors should be able to pass judgement on their representatives at shorter intervals.

QUADRANT MAGAZINE
(MONTHLY)

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Ideas and Insights

The following extracts from articles and speeches received at the IPA since our last Review may be of interest to readers.

Wage Indexation

Australia’s wage setting system is in some ways unique: No stable economy has such a centralised system based on full wage indexation. The recent decision by the Arbitration Commission to grant full indexation has been strongly criticised; in part, for the lack of concern it shows for the unemployed.

"The present wage increase will be inflationary, it will add to unemployment and it will retard recovery. I know there are lots of people in the business community who would prefer not to think about that and say, 'it will all work out'".

"I suggest to you in six or so months time we will all have seen the chickens come home to roost. Perhaps the most significant aspect of this wage increase is that no government, State or Federal — or the Arbitration Commission — have pretended that the increase was based on economic considerations."

"No one pretends the wage increase is justified. No one pretends the economy can afford it. We seem to have forgotten all about the idea of the capacity to pay and if the return to centralised wage fixation is simply going to mean across the board increases on indexation in the CPI every six months, we are heading down a long hard road".

Mr. John Leard,
Managing Director A.N.I., Speech,
November, 9th, 1983

"It is nevertheless a great pity that what was probably a unique opportunity to correct within a very short time a large part of Australia’s existing cost disparity with the industrialised world was missed on this occasion.

The Commission, in giving the reasons for its decision, acknowledged that an extension of the wages pause would have resulted in a more rapid economic recovery, a higher level of employment, and a lower rate of inflation. It concluded, however, that such an extension was ‘not sustainable industrially’.

"All in all, I must conclude that the National Wage decision was a severe setback for the Australian economy."

Sir Arvi Parbo, Chairman Western Mining Corporation
Speech, October 4th, 1983

"Wage agreements being reached at present within the Conciliation and Arbitration Commission have no relation to industry’s capacity to pay, or the general economy’s profitability. It is your Company’s belief that a total reassessment of the central wage fixing mechanism now in place, should be undertaken as a matter of urgency."

"The Commission as presently structured, shows little flexibility or sensitivity to general economic conditions. Many decisions fly in the face of the fundamental mechanisms of supply and demand. Wage levels and Australia’s
current economic performance are out of step. As a nation, we ignore this fact at our own and our children's peril."
Sir Ian McLennan, Chairman Elders IXL. Speech, November 17th, 1983.

"The structure of the economy is now so regulated and distorted by Government intervention, and particularly by the formal wage-fixing process. The formal wage-fixing process is not only effectively silent on the need for investment and profits, but it is so structured as to be quite unable (and unwilling?) to come to grips with it...

We have in Australia a wage-fixing system which in the names of uniformity and justice can and does increase our costs of doing business without any regard at all for the selling prices of what we provide as goods and services. In meeting these cost increases we can be legally compelled to go out of business. This happens frequently, but because it is usually a form of slowly crippling paralysis, it rarely draws the degree of dramatic public concern which it should".
Charles Copeman, Chief Executive, Peko-Wallsend Speech November 5th, 1983.

solution only turn difficulties into disasters."

"The solutions reached in the name of ‘consensus’ are all too often pure political agreements on a form of words, having little relevance to substantive policy ... Time is lost irretrievably...

"... Finally, when the situation has deteriorated sufficiently, the ‘consensus’, to which so much has been sacrificed, breaks down as it becomes clear that no remedy can be found within its terms."

"This seems to have been what has happened to the ‘consensus’ over the economic and social shape of British society which is said to have existed before 1965. For the crisis of British industry.....was precisely something that required an end to comfortable arrangements between trade unions and employers by which costs were passed on, first to the consumer, then, at a later stage, to the taxpayer."


Privatisation in the U.K.

The Thatcher Government has actively pursued a policy of privatising the U.K. nationalised industries by introducing private capital and competition.

"The principal achievements to date in these respects are the separation of the Post Office and British Telecom; relaxation of entry in bus and postal services and telecommunications attachments and value-added services; the transfer of half of British Aerospace, Britoil, Amersham International, Cable and Wireless, and Associated British
Ports to the private sector and the sale of the National Freight Corporation to its employees. Bills at present in process will relax entry into electricity distribution and telecommunications, and allow the transfer of 50 percent of British Telecom to the private sector. The intention is to sell British Airways, British Steel, British Leyland and British Docks as soon as financial results permit. British Rail is in the process of disposing of its hotels. British Gas has been ordered to sell its oil interests, and it was originally intended to enforce the disposal of its showrooms”...

“Relaxation of entry into bus services has already reduced bus, rail and perhaps even internal air fares. The prospect of entry by a second public telephone network (Mercury) has already induced British Telecom to ‘re-balance’ its tariffs, lowering prices for the top 100 trunk routes. The Post Office is reported to be increasingly efficient; its independence of British Telecom and the increased competition from couriers and electronic mail are surely important contributory factors”.

Stephen Littlechild. 
“Problems of Controlling State Enterprises”. State Enterprises and De-regulation, Centre of Policy Studies, Special Study No. 5.

**Regulating Business**

Australia’s future economic prosperity will, in large part, be determined by the willingness of governments to encourage enterprise. Yet regulation in so many areas is hampering business.

“...the results are striking. By scrapping government regulation, the nation is not only revitalizing three basic industries — finance, telecommunications, and transportation — but boosting the economy as well....”

“Long-distance airline fares, adjusted for inflation, have declined by almost 50 percent in the past seven years. Many trucking rates have skidded down 30 percent in real terms since 1980. The costs of standard telephones in 1983 have fallen by one-third, compared with last year.”

Sir Ian McLennan, 
Chairman, Elders IXL, 
Speech, November 17, 1983.

In the U.S., by contrast the move towards deregulation is gathering pace.

“...the results are striking. By scrapping government regulation, the nation is not only revitalizing three basic industries — finance, telecommunications, and transportation — but boosting the economy as well....”

“Long-distance airline fares, adjusted for inflation, have declined by almost 50 percent in the past seven years. Many trucking rates have skidded down 30 percent in real terms since 1980. The costs of standard telephones in 1983 have fallen by one-third, compared with last year.”

Sir Ian McLennan, 
Chairman, Elders IXL, 
Speech, November 17, 1983.

“Deregulating America”
International Business Week 
November 28, 1983