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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.
TO OUR READERS

Our nation is facing great difficulties and uncertainties. But one thing is clear. An essential part of any of the solutions to Australia's ills will involve the strengthening of the free enterprise system.

The growth of government, with the concomitant rise of taxes and intrusive governmental regulations, not only, as Paul Johnson argues in this "Review", "reduces the economic harvest" but presents a threat to the political freedoms which guarantee the right of individuals to shape the pattern of their own lives.

The more, however, that people look to government for answers to all their problems, the more the power and size of government will continue to increase.

The "Review" points out some of the inefficiencies and inequities generated by the growth of big government. Dr. Peter Arnold looks at the waste and corruption which are an inevitable accompaniment of universal health schemes.

In the article 'Job Creation Programmes for the Middle Class' we look at some of the beneficiaries of big government spending. The traditional family, as we show in another article, is often a loser when the government distributes the taxpayers' funds.

But Government is certainly not the only institution which can pose threats to the public interest. Too often institutions confuse their own particular interests with those of the wider community. This is one of the issues raised by Ken Baker when he debates with Professor Henry Mayer the standards expected of political journalists in the quality media.

Professor Davis — a leading Australian political scientist — warns of the irrelevance of the current constitutional debate. The same could be said of the campaign to change the Australian flag. Such issues, serve only to divert the Australian public from the real problems that need to be addressed.

From this "Review" you will gain an idea of some of the issues the I.P.A. feels are of importance. In its efforts to enhance the understanding of free enterprise in our society, the I.P.A. relies on your support. We hope you will encourage others to take an interest in our work.

Rod Kemp, Director
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EDITORIAL:

Facing Economic Realities

The Australian economy is seriously ill — far sicker than at any time since the Great Depression. Inflation is higher than most countries in the Western World, unemployment nearly 11 percent and growing, government deficits, State as well as Federal, exploding, and the private sector, on which true prosperity depends, deeply depressed with profit levels at their lowest for 50 years. National growth, for the present, is only a happy memory.

The Fraser Government was wrestling with these problems, not entirely successfully, when it was hit by the world recession and the drought.

There is no easy road back to health, and any material improvement may have to wait on the emergence of the world economy from the troughs of recession. In the meantime the Australian people have no alternative but to face up to the grim prospect of lower living standards, and, to use a well-worn but singularly appropriate cliche, to cut their coat according to the cloth available.

All this was clear long before the election and the 10 percent devaluation which followed immediately after. The devaluation though inevitable is, in part, a reflection of the lack of confidence in the new Government in world financial and economic circles.

Whether or not the people voted the Labor Party into office because of its policies must remain a matter of debate. It seems, however, rather more likely that its success was due to the fact that a majority of the people was dissatisfied with the record of the previous Government and decided to give its opponents a chance to prove that they could do better.

It should be said here that if economic problems could be solved by the simple expedient of expanding government expenditure — so called ‘pump priming’ — then there would really be no problem at all. (The illustrious name of John Maynard Keynes is repeatedly taken in vain by economic commentators to give some credence to such policies).* The general belief in the omniscience of governments is the great illusion of our times.

The truth, however, is quite otherwise. Big government spending, far from being a cure-all for economic ills, is itself a root cause of those ills.

The wage and income bushfire

The other major self-imposed cause of Australia’s troubles is the wage and income bushfire, which the Fraser Government was unable to extinguish. In part ignited by the punitive taxes which accompany big government spending, it has swept through the private sector destroying the prospects of profit and thus of employment.

The Hawke Government has an unenviable task, to say the least. If it is to proceed responsibly, it has no alternative but to disregard most of the economic

* Keynes made his proposals in a context of serious deflation, not serious inflation.
policies set out in the ALP Platform. If it is to respond realistically to the needs of the threatening economic situation, it will be compelled to fly in the face of deep-rooted Labor traditions and ideology.

**Public sector spending will need not a razor but a bulldozer.**

The Government is confronted with two inescapable imperatives: it must attack the ballooning budget deficits on the one hand, and impose the most stringent wage restraint on the other. Bringing the deficits under control by tax increases should be ruled out as counterproductive. Taxes are already too high and further increases would add to costs and prices, complicate the essential task of restoring business profits, and make it still more difficult for the Government to contain wages. The last mentioned will be hard enough in any event, particularly because of the addition to living costs following from the devaluation, not to mention the machinations of Messrs Carmichael, Crean and Halfpenny. Any benefits flowing from the devaluation will quickly be dissipated unless real incomes are allowed to fall.

This, indeed, is the heart of the matter. If the economy is to be put into a position to take advantage of the world economic recovery, the Australian people must be brought to face up to the necessity of a temporary reduction in their living standards. It is not too much to say that the success of the new Government will be determined by its success in bringing about a widespread acceptance of this necessity.

As far as government spending is concerned, the Government has only one option available to it. It must undertake a major review of the whole vast complex of spending throughout the public sector with a view to achieving substantial economies. What it will need is not a razor but a bulldozer. This is indeed what Government economic policy should be largely about — that, and the need for a reduction in real wages. Any improvement in the health of the economy is contingent upon the transference of income from wages to business profits — an objective which can hardly be dear to a Labor Government’s heart, but one from which it cannot escape, unless it is to court ignominious failure.
I.P.A. Commentary

A New Flag: Promoting Division

As consensus and reconciliation are the watchwords of the new era, the prospect of a divisive debate on changing the Australian flag would seem to be an issue better avoided.

This proposal has been raised at a time when the present flag is enjoying overwhelming community support. Opinion polls indicate that some 70 percent of the population do not want to change the flag — an approval rating that far exceeds that of any politician, political party, and probably most institutions in our society.

It is optimistic to believe that an alternative flag could command a similar level of support, particularly after the acrimonious debate which any change is certain to entail.

Indeed, it is one of those issues which has the potential to exacerbate political divisions, to set newcomer against Australian-born, and indeed, migrant against migrant. (Over 40 percent of our migrants are British).

National flags, after all, are not merely catchy designs to be compared one with another, they are symbols which over a period of time become invested with deep-rooted emotions and traditions.

Pride in the flag has little to do with qualities of colour and design, but everything to do with how people feel about their country, its achievements and its past.

Some of the supporters of a new flag seem to think that the debate will merely be about the appeal of various patterns on cloth. They misunderstand how the argument will develop. In order to shake the strong public support of our flag it will have to be demonstrated that it represents an era better forgotten, that 'a new look', a break with the past is essential.

Changing the flag would be about rewriting the past and transforming the present. It would be about changing the nature of Australian society. Indeed, calls for a new flag are already being linked with demands for a new constitution.

There are a disgruntled few who seem to believe that our past and our achievements should be a cause for shame; that we need to start all over again with a new national identity, a new social structure and a new symbol of nationhood.

In fact, Australia has a lot of which to be proud. Too much of human history is unfortunately a story of political oppression, violent social conflict and poverty.

Australia's political and economic freedoms, its absence of violent social conflict and its relatively high standard of living are rare and precious achievements; these foundations are now being built upon by those of many and varied national origins who peacefully co-exist in Australia as Australians.

Some groups promoting the change understand its symbolic significance better than others. That those committed to a platform of radical social change should seek to transform our central symbol of national identity is entirely
consistent with their goals.

But there is no good reason why those with more moderate social philosophies should help advance their aims. A new flag would only serve to weaken, not enhance unity.

Mr. Hawke’s Historic Mission

Since 1975 a significant change has come over Australian politics. This has been the increased recognition by both the major political forces, Labor and Liberal/NCP, that ‘practical politics’ requires recognition that the Australian people have a largely agreed set of values, and that policies which do not increase the chances that these values will be realised are unacceptable.

The change is reflected in the increasing similarity of the campaign rhetoric of the major parties — a phenomenon particularly evident in both the 1980 and 1983 federal elections. This development has required a marked shift in the rhetoric of the Australian Labor Party, especially. The old Labor shibboleths, the conflict of class interests, the priority of income redistribution, have been replaced by the rhetoric of common interests, working together, recognition of the need to reduce personal taxes, and the importance of private enterprise to a strong and prosperous Australian nation.

It has to be said that this rhetoric is somewhat at variance with a number of the key policy objectives laid down in the ALP Platform and there are influential groups within the Labor Party still pressing strongly in the old ideological direction. However in the post-election period the dominance of a more realistic and practical perspective in the Party’s leadership is obvious. If it can be effectively carried through into policy it will undoubtedly increase Labor’s chances of continuing electoral success.

Whatever one may think of his chances Mr. Hawke has embarked on a mission of historic significance in his attempt 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 interests and recognition of the fundamental role of private enterprise and the market economy in a democratic society. His attempt will doubtless increase internal tensions in the Labor Party, and his success in dealing with these will be a measure of his leadership.

If he achieves his objective, most Australians will have cause to thank him, and Australia will be a more united, stronger and more prosperous society as a result.

Consenting Adults and Shopping hours

Despite the on-rush of permissive values, there is at least one area where governments are still determined to intrude into human relationships.

The jailing of Victorian shopkeepers for selling hardware products on Sunday (and refusing to pay fines) high-lighted the lengths to which governments are prepared to go in preventing perfectly proper exchanges between people.

While this debate was going on in Victoria, a N.S.W. Federal politician, Mr. Carlton, pointed out another surprising feature of the debate on shopping hours.
Speaking at an I.P.A. dinner, Mr. Jim Carlton pointed to the failure of the women's movement to join the fight for freer shopping hours.

"Why shouldn't there be outrage on the part of the Women's Electoral Lobby and similar bodies because of these restrictions?"

Mr. Carlton emphasised that the current shopping hours were designed for the single income families of the manufacturing industry of the 'thirties.

"Why are they (the women's movement) not mounting the barricades to ensure that any woman who works is allowed to shop whenever she likes, at any time of the day or night?" "There are people who are prepared to work for a wage at the time these women want to buy", he concluded.

It is certain that when Governments enshrined in law many of the current restrictions on shopping hours, they didn't visualise the dramatic changes in the composition of the workforce, in particular the huge increase in the numbers of married women who wished to join the workforce.

With over 40 percent of married women currently working (compared with about 30 percent in the 'sixties, 15 percent in the 'fifties and 8 percent in the late 'forties) a substantial constituency has developed to support more flexible shopping hours.

Almost 800,000 married women are full-time members of the workforce. In addition, half of all part-time employees are married women (640,000), and some of these might prefer full-time work if they had the option of more flexible shopping arrangements.

But married women are not the only ones to benefit. Unmarried female and male workers, especially those who live independently of their parents, spend much of their income on discretionary purchases and would appear to benefit from weekend shopping.

Further, it has been pointed out that often decisions on major purchases are better made jointly by spouses, and current shopping laws will adversely affect the partners even if the wife does not work.

As the Table shows Australia has some 5 million full-time workers. It has been estimated that some three-quarters of these people — i.e. nearly four million — would work normal hours. They must therefore cram much of their shopping between normal trading hours and working hours.

Given the changing composition of our workforce, it is not surprising that most opinion polls indicate that a substantial number of people are in favour of additional shopping hours.

Certainly it appears that in countries such as the U.S.A., Canada, France and West Germany, Saturday afternoon is one of the more popular shopping times and, where it is permitted, there is significant trade on Sundays for goods which involve time-intensive shopping, such as furniture and electrical products.

But until the barricades are mounted, it seems that economic relations between consenting adults in Australia — the shoppers and the shopkeepers — unlike many other relationships, are to be subjected to the 'moral' judgements of government.
### Economic and Political Freedom

The close connection between political and civil freedom on the one hand and economic freedom on the other, has been dramatically illustrated in a recent study by Freedom House.

Freedom House is a New York-based independent organization which has been monitoring human rights for the past 30 years.

The survey found that of the 165 countries covered, 55 were free, 48 partly free and 62 not free.

An analysis of the 165 countries by degree of freedom and form of economic arrangement makes for a good test of the proposition that a high degree of economic freedom is a necessary condition for the existence of political freedom.

Freedom is a complex concept but essentially it involves the right to vote, a free press and the right to assemble and to form organisations, as well as the rule of law.

The 165 nations of the world may be categorized as belonging to one of two broad groups; the capitalist world and the socialist world. In the capitalist camp are included the mixed capitalist economies such as Holland and Sweden where governments provide social services on a large scale, but where capitalism is still regarded as legitimate.

Socialist economies are defined by Freedom House, as those which “strive programmatically to place an entire national economy under direct or indirect government control”. This category comprises all the Communist countries but it includes countries such as Algeria, Iraq and Tanzania.

The 55 free countries identified by Freedom House all have capitalist economies of various shades. In marked contrast, not one socialist country was found to be free.

Of the 43 socialist countries a mere five are only partly free and 38 are not free.

While the capitalist group of countries is dominated by free nations, there are 26 countries classified by Freedom House as capitalist but not free, such as Cameroon, Guatemala and Yemen. But most of these countries are under-developed where less than half the population is part of a modern capitalist economy, while the majority of the population still lives a traditional life-style.

On this evidence, provided by Freedom House, there is little doubt that a free enterprise economy is a necessary, if not sufficient, condition for the existence of political freedom.

This conclusion bears out the remarks made by Norman Podhoretz at an I.P.A. lunch-time meeting when he noted that “Economic freedom imposes, by its very existence, a limit on State power. To the extent that the State is prevented from controlling any sector of our lives, to that extent it has less power over our lives. Therefore, if this particular sector — like any other sector — religion, the arts, whatever — is free of the control of the State then the degree of individual freedom is increased.”
Political Journalism in the Quality Media

In the last “I.P.A. Review” Ken Baker commented on some tendencies in modern political journalism which, he suggested, served to discourage informed debate. He illustrated his comments with examples from “The Age” newspaper. Professor Henry Mayer criticises the approach taken in this earlier article and Ken Baker replies.

Comment by
Professor Henry Mayer*


His approach is open to two main criticisms: first, it fails to distinguish between hard news’ reporting, features’ writing, columnists and cartoonists. It asserts, unacceptably, that all these ought to be judged in terms of criteria applied to hard news. Second, it rests on highly contestable assumptions about governments, news media and the public which reveal a touching but unjustified faith in governments.

No single pot

Concepts used by Mr. Baker — balance, fairness, equity — have a long tradition in the analysis of hard news. It is not necessary here to discuss what they might mean given that all news and criteria of news is, and cannot but be, a complex human artifact. The point is, rather, that they should not be applied to a whole range of ‘related’ activities without an argument that what is common to all of them outweighs what distinguishes them.

From what kind of theoretical basis does Mr. Baker derive a ‘duty’ which applies to columnists, commentators and even cartoonists? Do they really all share a ‘duty to inform citizens on matters of government in a manner that encourages a rational and morally sound consideration of the issues’?

Mr. Baker’s ex-cathedra allocation of ‘duties’ to cartoonists is only slightly less absurd than were he to allocate them to political jokesters. It tells us a lot about Mr. Baker, not much about anything else.

A good (political) cartoon is, and is supposed to be, the very opposite of balance, rationality, fairness. It crystallizes complex issues into a few lines. The often savage and even vicious (Cook) gross over-simplification is the point of the cartoon; it gives it power and impact. Cartoons are subjective, emotional, unpredictable wild jokers in on the whole fairly staid papers.

Columnists are employed to give a personal view which may or may not agree with the editorial line. A good columnist is in no sense ‘balanced’ nor need he ‘balanced’ by others. Thus Michael Barnard is a good columnist: He is highly partisan — a necessary but not sufficient condition for the goodness of his work. He writes so as to nag, irritate, demand, reply, and at his best, demand re-examination of one’s own views. The impact of Barnard’s column would suffer were it to be ‘balanced’ by an anti-

*Professor of Political Theory, University of Sydney, and Editor (Academic) of “Media Information Australia”.
Barnard one. His own work would be ruined by 'perspective'.

A person who writes features and comment and also standard hard news and soft news stories, such as Michelle Grattan, is again in a different position. I am not clear how far one ought to apply hard news categories to her work. She is not as 'wild' as cartoonists or columnists, but what she does is properly appraised if her kind of political journalism were subject only to hard news criteria. This issue can be discussed once we start making distinctions.

My first point, then, is that Mr. Baker has made a category mistake: concepts such as reporting, equity, balance, fairness in the media cannot be applied to a good deal of what he calls 'political journalism' which demands criteria of its own.

**Media and government**

Mr. Baker's view is that media owe a duty to inform citizens of the doings of governments so that the citizens can make more reasonable choices.

In news columns such a moral obligation may well exist. If it does, however, the stress on it is misleading without at the same time asking a whole host of other questions:

To what extent do governments of all colours lie regularly? How far do they attempt to set the terms and context of the political debate? How far ought media to defend citizens against governments (and, possibly, also against trade unions, business, farmers and academia) and how far ought they to convey citizens' real views to governments?

Accepting Mr. Baker's views would not be helpful. He pleads for 'accurate and balanced comment'. Who on earth, by what criteria, would decide whether something was or was not 'accurate' or 'balanced'? If we are to have balance, are those at present excluded from the mainstream to have voices, and, if so, how many?

**Method**

The "I.P.A. Review", even if it had space, is not suitable for more specific discussions of methodology. Hence I will only list the main questions:

1. Can a six-days' basis, September 23-29, 1982, be adequate even for purposes of 'illustration'? 2. How can we know that the tendencies 'illustrated' are, in fact, typical of papers other than *The Age*? 3. Is it reasonable to look only at governments and not also at oppositions?

With the shift towards more interpretative papers, political commentators, columnists and cartoonists will assume more and more importance. Though we differ sharply as to how and by what criteria their work ought to be analyzed and compared with hard-news' journalism, the issues raised by Mr. Baker are important. I can only hope that the discussion will now continue.

*** A Reply by Ken Baker ***

My article, "Political Journalism and Public Debate", was about the criteria we should use to judge the quality of political journalism. Its purpose was to draw attention to some trends in modern political journalism which I believe to be undesirable: the tendency to give complex issues one-sided treatment, the focus on personalities rather than the substance of policies, the propensity of journalists to dramatize the everyday conflicts of political life with the imagery of chaos and crisis, and finally the gratuitous
nastiness which can creep into political writing. All of these tendencies, I argued, served to discourage well-tempered, rational and informed public debate. Each of the tendencies was illustrated by examples drawn from cartoons and commentaries in “The Age” which appeared over a number of days and dealt with, among other things, the Woodward report and Mr. Fraser’s personality.

It is worth under-scoring the fact that Professor Mayer does not argue against my claim that these tendencies in political commentary do in fact exist. He questions whether six days of “The Age” are adequate to illustrate such trends. (For the purpose of illustrating a point one example can be sufficient. In fact the bulk of my article was taken up with the analysis of examples). The Professor also asks whether the tendencies illustrated are typical of papers other than “The Age” — a question open to debate, although the Professor provides no counter observations.

The need for standards

Professor Mayer’s principal dispute is with the criteria which I employ to assess political journalism, namely equity, balance and perspective. As stated in my article the application of such standards in no way precludes the right of political commentators to argue a personal point of view. It is this which distinguishes them from hard news journalists. I cannot, however, accept Professor Mayer’s position that the value of a political column would be ruined by balance. I cannot, for example, see how “The Age” commentaries on the Woodward Report which I discussed were improved by the omission of certain key points of consideration. On the contrary, I would have thought that a journalist commands credibility and respect according to how well he demonstrates a sound grasp of the complexities of an issue. This would apply to commentators as much as to hard news reporters. The general acceptance of standards of equity and balance is an essential ingredient in a working democracy and we should not hesitate to demand such standards particularly of those who occupy positions of influence — in the press as elsewhere.

If, with Professor Mayer, we reject balance, equity and fairness as legitimate standards by which to assess political journalism, what are we to put in their place? The Professor hints at two standards he thinks ought to apply. He believes that a good columnist is “highly partisan — a necessary but not sufficient condition for the goodness of his work.” Second, he suggests that the impact of a column is important in evaluating its worth. The first criterion has unacceptable implications. Partisanship in political journalism, without the countervailing qualities of balance, rationality and equity is no more than one-sided and one-dimensional political propaganda. Professor Mayer’s second criterion is equally inadequate. To judge a column only according to its impact is to evade the important issue of whether the column enhances or demeans the quality of public debate. Professor Mayer rejects the notion of responsibility applied to commentators, but he has nothing credible to put in its place.

Professor Mayer’s means of assessing cartoons are equally inadequate. “A good (political) cartoon” he writes, “is, and is supposed to be, the very oppposite of balance, rationality, fairness”. But are imbalance, irrationality and unfairness the qualities of a good cartoon? Political cartoonists, like columnists, make judgements on issues — although such
judgements, given the nature of the medium, are inevitably over-simplified. But this need not preclude qualities of discernment, political astuteness and moral sensitivity. But here again Professor Mayer seems more concerned with defending whatever gives a cartoon “power and impact” than he is with the quality and effects of that impact.

There is some sense in the Professor’s comment that cartoons are like wild cards, although, it must be admitted, the cartoons I described in my article demonstrate a remarkable like-mindedness both with each other and with the written columns. Professor Mayer may well have over-estimated the unpredictability of cartoons.

I find equally unacceptable the Professor’s view that we have no way of deciding the nature of accuracy and balance in news commentary. Surely we are not so much at sea that we cannot decide whether or not a piece of journalism is well-argued and arrives at its conclusion after taking due account of the available evidence and alternative interpretations of the issue. If Professor Mayer is prepared to argue that good cartoons and columns lack ‘balance’ then even he must have some notion of what it is they are lacking.

The Press and the Public Interest

In Professor Mayer’s article I am charged with an unjustified faith in governments. Nothing that I have written supports this claim. Indeed, one of my central arguments for informed and balanced commentaries is that an undistorted understanding of political issues is a sound basis for enabling citizens to keep a vigilant check on governments. Could it not better be said that in his belief that political journalists operate at their best without the constraints of balance, perspective, fairness or a sense of duty, Professor Mayer displays an unjustified faith in the willingness of journalists not to abuse their freedom and power?

That at times it is a proper role of the media to defend citizens against governments should not lead us to a naive identification of the public interest with the interests of the Press. An image of journalists as crusaders in defence of the public’s right to know should not blind us to the fact that journalists’ ambitions do not always coincide with the public interest. No one need dispute that the courage of journalists to express their own convictions and to pursue a good story even at the risk of offending vested interests are features of a vigorous media. But in a sense these are “easy virtues”. After all, revelations of political intrigue and exposures of crises and corruption in high places sell newspapers and enhance the reputations of journalists with their colleagues.

There are as well the “difficult virtues” which service to the public interest demands. Often it takes more courage and integrity for a journalist to present both sides of a difficult issue, even at the cost of ruining a “good story”, or to judge a public figure with balance and fairness without succumbing to his own prejudices or the institutional pressures of the Press. The public interest is at times best served by respecting confidentiality in government. Such considerations require recognising the fact that the interests of the community and the interests of the Press are not the same and that there exists an overriding duty of the Press to the public to foster, as far as possible, a rational and morally sound judgement on issues.
Finally, Professor Mayer’s query of whether it is reasonable to focus on the Press treatment of governments to the exclusion of oppositions allows me to reiterate the point on which I ended my earlier article. The requirement of balance as I stated it there is not that one side of Parliament be treated as unfairly as the other, but rather that both governments and oppositions receive reasonable and just treatment. Upon this, amongst other things, the quality of public debate depends.
Some Lessons of the Fraser Years

The Fraser Government stood for the right objectives, but failed to pursue its goals vigorously enough. This is the major lesson of the Fraser years.

Throughout the period when Mr. Fraser was Prime Minister, the I.P.A. was often a critic of the Government's policies. This was generally not because we disagreed with what we understood to be the main thrust of those policies, but because we were concerned that unless that thrust was more strongly pursued, the economic problems Australia faced would persist and even worsen. Regrettably, this has happened.

To say this is not to deny that Mr. Fraser provided Australia with quite remarkable leadership during a time of exceptional economic difficulty. Few Prime Ministers have had to cope with such a serious collapse in world trade and none with the twin evils of high inflation and high unemployment. That Mr. Fraser was able to maintain the stability of his Government, the unity of his Cabinet, and lead his party to three election victories in such a period, alone marks him out as one of Australia's great Prime Ministers. On the world stage, he gained a personal respect and authority achieved by few, if any, other Australians in our history.

His achievements, indeed, go beyond this. At a time when other countries were failing to face the need to cut back government spending and encourage the productive sector of the economy — private enterprise — by reducing taxes and regulation, Mr. Fraser correctly identified the solution. It is not too much to say that other countries, particularly the United States and Great Britain, were probably influenced by the initial successes of the "Fraser experiment".

Mr. Fraser provided Australia with quite remarkable leadership during a time of exceptional economic difficulty.

In 1975, he offered Australia a dramatically different alternative to the exploding spending programmes of the Whitlam era. The main features of his proposals were:

* stopping the growth in government spending and cutting back the size of the public sector to free resources to private enterprise;
* reducing the burden of taxation on both individuals and businesses and protecting their incomes against the ravages of inflation;
* cutting back excessive regulations and bureaucratic controls on enterprise, and giving more scope to market forces in major areas of government activity;
* strengthening the responsibility of State Governments and reducing the over-centralisation of government in Canberra;
* slowing the growth in real wages to realistic and sustainable levels;
* reducing the power of unions to compel higher wage costs, and providing them with incentives to
exercise wage restraint in the form of lower taxes and income supplements.

In the view of the I.P.A., as far as it went this was a sound approach. Indeed, it remains the only approach which can restore Australia to economic health. It is an approach we will be urging on the new Hawke Government at every opportunity — for it goes beyond party philosophy to basic economic rationality.

National attitudes
The main gap in the Fraser programme was the lack of any consistent means of getting across the message that fundamentally our problems arose out of national attitudes, and that government alone did not have the means of solving inflation and unemployment. Paradoxically, a government that urged "smaller government", nevertheless relied too heavily on the assumption that government action alone could cure our economic ills.

Great nations are made not by governments, but by the people themselves. The I.P.A. has consistently urged a process of national education and we welcome that emphasis in Mr. Hawke’s programme which stresses the need for a broad national understanding of the causes of our economic problems. It is important, however, that if economic recovery is to occur, it be based on a sound understanding of the realities of economic policy.

The Fraser Government slowed, but did not reverse, the growth of government spending in Australia. Relative to other countries it achieved marked success in reducing the rate of growth, and in its own sphere of government, the Federal level, it actually produced a decline in the overall proportion of the government budget to G.D.P. until the 1982/83 budget was overwhelmed by the world recession and drought.

To its lasting credit it exercised the tightest financial controls of any Australian government of recent times. Over the period 1975-83, Federal Budget spending grew by only 2 percent on average, per year in real terms, compared to 10 percent under the Whitlam Government, and 4 percent under the Holt, Gorton and McMahon Governments. Though not enough, it is an achievement which must not be underestimated. During this period, however, the Fraser Government received little support from the States, even from State Liberal governments. It is clear that at the State level, the Liberal Party still has much to learn about economics.

During this period of restraint Australia resumed reasonable economic growth. Employment picked up markedly after 1977 and unemployment began to come down. While a range of factors have to be taken into account in a satisfactory explanation of these trends, they do show that pump-priming government spending is in no way a necessary condition for restoring economic growth and reducing unemployment.

The I.P.A. believes that the benefits of this approach would have been much greater if it had been more stringently and consistently applied. Given the inevitable (and even indexed) growth in large sectors of budget spending, this would only have been possible if whole programmes had been handed back to the private sector, and if the indexation of certain welfare benefits had been ended. In its current work the I.P.A. will be examining the areas where it is most important that this be done.
We welcome that emphasis in Mr. Hawke’s programme which stresses the need for a broad national understanding of the causes of our economic problems.

The most significant policy failure of the Fraser Government — and the one which more than any other probably contributed to its defeat — was the failure of its wages policy. The gross imbalance between wages and profits which opened up in the Whitlam years was partially restored in the period up to 1981, but from that year a new wages explosion took place which, allied with the shorter hours campaign, destroyed the profitability of many companies and led to greatly increased unemployment. Throughout this period, the I.P.A. urged a more imaginative approach to achieving wage restraint — and indeed restraint on all incomes. The government’s wages pause was a laudable and necessary initiative but it was too long delayed. The refusal of the Labor Party and the A.C.T.U. to support direct restraint on wages was irresponsible. The Hawke Government now faces a great responsibility to achieve this wages restraint. If it fails to do so, the disastrous results which would follow for inflation and unemployment will undermine the new government before many years have elapsed.

Reduction of real levels of tax
We have also seen it as fundamental to economic health that real levels of taxation must be reduced, both for individuals and businesses. By holding down the growth in spending, the Fraser government slowed the rise in taxation. But the tax burden has increased and continues to increase, and our prosperity suffers accordingly. Punitive tax avoidance legislation (which, under the circumstances, we supported) and the search for new taxes are the inevitable consequences of further increases in the size of government. The Australian community simply does not accept that government services constitute a “social wage” which compensates for lower rises in wage and salary incomes. People want to spend more of the money they earn, for the very good reason that they believe they know their own needs better than governments. No government which fails to recognise this will be long-lived.

The difficulty the Coalition found in coming to grips effectively with the budgetary and economic problems facing Australia — despite the leadership of one of the strongest and most determined Prime Ministers in our history — shows the true magnitude of those problems. We have cause to be grateful to Malcolm Fraser for the course he set and the degree of control he managed to implement over the bloated public sector. We have cause for foreboding in the fact that even he was unable finally to get on top of the inflationary incomes push. Unless this problem is solved the path for Australia must be inexorably down in a spiral of renewed inflation and mounting unemployment. This is the great challenge now facing the Hawke Government.
Financing Alternative Life-styles

The traditional family — mother, father and the children — is under attack from many directions. But the treatment this type of family can receive under certain sections of the Social Security Act seems somewhat out of place in this era of equal rights and anti-discrimination legislation.

ABC T.V. recently screened a series, 'Faces of Change', produced by Anne Deveson; a well-known broadcaster and one of the authors of the Report of the Royal Commission on Human Relationships. The program looked at the lives of two women who had separated from their husbands. Each of the women had two children. The women had decided to come together in a lesbian relationship to form a new family.

Discussions on alternative families often focus on questions of morality, but the economics of such arrangements are also of interest. Family groups can support themselves from their own earnings, private assistance from outside, (maintenance payments, gifts and contributions from relations etc.), or state assistance (social security payments). There was no discussion on the detailed financial arrangements of the particular family featured by Anne Deveson but it is interesting to see how an alternative family consisting of two women (or two men for that matter) and four children would fare under the Social Security Act. In fact this type of family does far better under the Social Security Act than the traditional family with the same number of children and in similar need.

WEEKLY HOUSEHOLD SOCIAL SECURITY ENTITLEMENTS

<table>
<thead>
<tr>
<th>Pension/Benefit entitlement</th>
<th>'Traditional' Family: mother, father, four children</th>
<th>'Alternative' Family: two mothers, four children</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unemployment benefit (married rate)</td>
<td>$128.80</td>
<td>$154.50</td>
</tr>
<tr>
<td>Allowances for Children</td>
<td>$40.00</td>
<td>$40.00</td>
</tr>
<tr>
<td>Mothers Allowance</td>
<td>—</td>
<td>$16.00**</td>
</tr>
<tr>
<td>Family Allowances (approx.)</td>
<td>$31.00</td>
<td>$26.00</td>
</tr>
<tr>
<td>TOTAL (basic entitlements)</td>
<td>$199.80</td>
<td>$236.50</td>
</tr>
<tr>
<td>Free Area of Income</td>
<td>$10.00</td>
<td>$84.00</td>
</tr>
<tr>
<td>TOTAL (Pension plus outside income)</td>
<td>$209.80</td>
<td>$320.50</td>
</tr>
<tr>
<td>Less Tax</td>
<td>$7.00</td>
<td>—</td>
</tr>
<tr>
<td>Plus Fringe Benefits (est)</td>
<td>$10.00</td>
<td>$25.00</td>
</tr>
<tr>
<td>OVERALL TOTAL</td>
<td>$212.80</td>
<td>$345.50</td>
</tr>
</tbody>
</table>

* The figures in this column represent individual entitlements added together to obtain household income.

** Assuming a child under six in each case.
(It is assumed that both families do not receive sufficient income to preclude them from full pension or benefit entitlements).

The first point to note is that the traditional family has no automatic entitlement under the Social Security Act. If the father is of sound health the only support he could reasonably expect is unemployment benefits and then only if he continues to seek work.

In the alternative family each adult would be entitled to a supporting parents benefit. No work test would be involved and the pension would continue as long as there were dependent children.

Assuming the father in the traditional family is unemployed, the basic social security entitlements would be some $41.70 (including $16 mothers allowance) below the total of the two supporting parents benefits. However, the traditional family would make up some ground as the family allowances for four children (higher rates are paid for the third and fourth child) are greater than the sum of the allowances paid to each mother for her two children. Despite this advantage the traditional family is still some $36.70 worse off per week than the alternative family although their needs (two adults, four children) are likely to be very similar.

The discrimination does not end here. The husband (or his wife) could earn only $10.00 a week before his unemployment benefit was affected. The women can each earn $42.00 a week before their Social Security entitlements would be reduced. In all, assuming both family types exploit the full income free area, the alternative family would be some $120 a week better off.

The rate structure and eligibility criteria can penalise married or de facto couples, but does not take into account the ability of pensioners and beneficiaries to share their living costs in other situations.

At this stage the traditional family will find they have a tax bill to pay — some $7 a week. The alternative family can avoid this problem, as income is split between the two supporting parents. (Each has an individual pension entitlement). While the child allowances for those receiving unemployment benefit are taxable, in the case of the supporting parents the same entitlements, $40 a week, are not regarded as part of taxable income.

$130 a week disadvantage

Finally, the supporting parents would be entitled to a full range of Commonwealth health and other fringe benefits and, in addition, many State and Local Government fringe benefits. Commonwealth health benefits would be the only major fringe benefit that the unemployed father could expect. This difference could further increase the advantage to the alternative family by $10.00 to $20.00 a week, lifting the overall advantage of the alternative family to a huge $130 a week.

It is worth noting that the household disposable income of the alternative family would still be greater than that of the traditional family even if the father acquired a full-time job which paid him the equivalent of average weekly earnings.
In this case, the after-tax income of the traditional family would be $318.00 compared with $320.50 for the alternative family.

These examples highlight the less favourable treatment that the traditional family type can receive under sections of the Social Security Act. The rate structure and eligibility criteria can penalise married or de facto couples, but does not take into account the ability of pensioners and beneficiaries to share their living costs in other situations.

The figures in the table illustrate the work disincentive effects which are endemic in social security systems. Certainly the alternative family used in this article would be a very small proportion of total households.

Nevertheless the work disincentive effects also apply to other households where incomes cannot be aggregated. In a detailed report entitled 'Sole Parents on Pensions' the Department of Social Security concluded that "The current provisions, as administered, tend to discourage sole parents from full use of their earning capacity..." The work disincentive effects will become more of an issue when the economy recovers.

Finally, a feature of the 'traditional' family is that it is typically a net contributor to the public purse. The extent to which other family types are more liable to depend on social security will tend to increase the tax burden that the traditional family has to bear.
Proposals to re-write the Constitution are receiving increasing attention. Professor Rufus Davis, of Monash University, a recognised academic authority on the Constitution, argues that the Constitution is working and that the debate is a wasteful irrelevance.*

Over the years a gulf has opened between what the critics say the federal system is about, and what the federal system is in fact. From the moment of its birth the public talk about federalism in Australia has steadily drawn further and further away from the life that has grown within and around the new system of government. The public talk is almost always party — adversarial, dichotomous, fixated. The experience of the system is complex, diverse, variable — responding as it always does to the pull of a thousand criss-crossing levers of competing interests. It is an incredible mosaic. The contours of the public talk are easily drawn in a single, predictable profile; the experience is shapeless, kaleidoscopic. The public talk has become dry, ritualized, and increasingly irrelevant, while the experience continues to evolve in a thousand rooms where a thousand decisions are made through talk, correspondence, arguing, bargaining, exchanging, cajoling, aggressing, agreeing, disagreeing, proposing, rejecting, compromising, stalemating, in fulfillment of the crowded business of each new day.

From the beginning, the public talk of the federal experience has been conducted in the language of depreciation, of putting down, and rarely with any, even grudging appreciation of what federal union had made possible. The constitution was the ‘worst’ in the world, it was a ‘misfit’, a ‘failure’, it was impractical, unworkable, inefficient, unreadable, undemocratic, bourgeois; it was ill-designed, it promoted irresponsibility, it was horrendously costly.

The Australian Labor Party must share the blame for the public polemics of the constitutional debate.

Many must share the blame for the language and the directions of the public polemics. But the Australian Labor Party must carry its portion of blame. Too late to sit with the founding fathers, it has, like Esau, cheated of his father’s blessing, never tired of calling upon the Australian electorate to right the historical injustice, and establish a kingdom of power where it would, if it only were allowed, fulfil its dreams of bettering the lot of society. Indefatigable in championing the expansion of federal power, it looked upon the constitution, rather than itself, as its worst enemy. From the beginning, its mood was impetuous and unidirectional. It was not for a ‘radical’ party cast in the culture of early Australian working-class messianism to tolerate restrictions.

*Excerpts from the opening paper given at the Third Federalism Project Conference in Canberra, 10th February, 1983.
The constitution has changed

It is not easy to renovate our perspectives. We have been carriers of a style of thought that has hindered the understanding of our federal experience for a long time, and habit, as we all know, is very strong. To cleanse the pollution of referendum polemics, to test the litany of critiques that have become the cliches of commentary wherever federalism is discussed, to restore the Australian constitution in the opinion of its people to a status that is more elevated than the ‘worst’ constitution in the world, ‘at best irrational, and at worst unworkable’, to set its performance in the midst of the constitutions of the world, and to look on the past and present in a way that will narrow the gap between theorizing and reality, will involve us in years of research and re-education. It is a difficult task.

No constitution that is a living constitution is ever static, and ours is no different.

I want to begin the task of putting our feet back on to the ground, by clearing several false obstacles out of the way. And I propose to do this by making two preliminary assertions. In the first place, I — and doubtless many others — would take it to be an immense banality that the Australian constitution, and the federal system it enshrines — at least, formally — have undergone profound changes since 1901. Taken in the fullest sense of all the things that make up and symbolize a constitution, the Australian constitution of 1983 is not identical with the instrument of 1901, either in the understanding of it, or in the practice of it; nor is the federal system as it was understood and practised in 1901, the same as it is understood and practised in 1983, nor will it be in the tomorrows as it is today. No constitution that is a living constitution is ever static, and ours is no different.

To speak of it therefore, as if there had been no change since 1901, or as if the change were quite insignificant, to speak of it in the derisive terms of ‘horse and buggy’ or ‘antediluvian’, or ‘cromagnon’, or ‘stone-age’, or ‘anachronistic’, or to speak of it in the imagery of an 18,000 year ice-age continent, frozen and still, or to speak of it in any metaphors which suggest that the totality of its being is immoveable, rigid, inflexible, invariable, lifeless; and to do so in the knowledge of the Engineers Case, the Financial Agreement, the Uniform Tax Case, or to do so after the unprecedented expansion of federal activity post-1945, and notably 1972, or to do so in the knowledge of the increasing inter-penetration of Commonwealth and State activities through a growing mass of co-operative arrangements (the most significant recently being an amendment to the troubled Conciliation and Arbitration Act) is to show a political myopia of a very high order! Of course, the constitution has not changed in the way that all would wish it. Indeed, we may quarrel about the degree of change, or where the change has taken place, or what the change consists of — we may also quarrel whether the changes are for the better or the worse. It is quite impossible, however, to quarrel with the assertion that there has been change, and that the change has made a difference.

How the changes have come about is fairly clear, though not always as clear as might be supposed. What is crystal clear, however, is that of all the ways in which
change may take place, least is owed to the method of change which the constitution makers provided — that is Section 128. Why this is so, is still, even after 80 years, quite speculative. It is true that we know a fair deal about referenda behaviour and party influence, and at a pinch, for want of anything better, we can always say something about the 'conservatism' of the Australian voter when he votes 'No' and never, of course, his 'progressivism' or eclecticism on those rare occasion when he votes 'Yes'.

The constitution works

It has scarcely been asked, for example, whether a constitution which, at the very least, appears to work, may act as a disincentive to change by electoral choice. For the fact is that a need for constitutional change is rarely — if ever — so manifest, so compelling that there is no other choice but to say 'Yes'. However skilled the advocacy, the case for change is never so blindingly obvious as the need for action when rain is pouring through the ceiling of a bedroom at night, or when a leg is broken, or when a fishbone is caught in the throat of a child, or when a car stalls on a railway crossing. Nor is it the case that check-mate arguments or demonstration can be brought to bear on the reluctant ones, especially where equally skilled voices urge them to resist change. While it is relatively easy to demonstrate the virtues of irrigating crops by electrically pumping water from a river instead of carrying pails of water, or while it is easy to demonstrate the superiority of an electrically driven brick elevator over a bricky's hod in carrying bricks to the upper storeys of a high building, it is impossible to demonstrate the benefits or losses of any constitutional proposal in anything like the same way. Neither is it the case that experience can be brought to bear on the matter since the most demonstrable lesson of the Australian experience is that neither disaster nor great hurt has ever followed a refusal to change the constitution by means of a referendum. The referendum of 1944, and the years thereafter are spectres that must haunt every ambitious constitutional reformer!

The constitution works, has worked from its beginning and could continue to work for some time yet.

In other words, an untried hypothesis that may go some way to explain the referendum mentality is simply — 'if the constitution works, and it appears to be working, why change it'? But whether this — scarcely irrational — hypothesis explains the referendum 'mind' or not, is of less importance than the overarching fact that, to all visible and practical purposes, the constitution works, has worked from its beginning, and — by the smallest leap into the future — could continue to work for some time yet, in its present form. Indeed, one could be easily tempted to suggest that the constitution could have worked precisely as it was in 1901, with much the same results, and in much the same way had no amendments been attempted, or if attempted none had succeeded.

The public suspects constitutional reformers

Although my second assertion is also a massive banality, it is one of the most neglected banalities in the education of the Australian citizen! Why this is so, is a worthwhile study in itself. True of course the first lesson in psychiatry is that one should not believe all that one thinks one
sees. And it is just possible that what appears to be working is not working or barely working at all. Nevertheless, as one does not have to pass a feather under the nose of a year-old corpse to see whether it breathes, so one does not have to bite the foot of a walking man to see whether he is alive. And — if I may say so — constitutional reformers do not seem, or do not want, to realize that by denying that the constitution works, or by asserting that the constitution is 'unworkable', they mostly succeed in distancing themselves from the eyes of the common man, and make him as suspect of their designs as they would a marriage broker who tries to persuade a suitor that a beautiful girl who limps only limps when she walks!

There is no correlation between economic success of any western-type political system and its constitutional structure.

I repeat, the system works, and if it is necessary to demonstrate the obvious to the unbeliever there are many ways of doing so. Probably the simplest however is to take a brief tour through the visible parts of the machinery. Look around, walk about, peer into legislative chambers — when they are in session — stroll softly through the offices of federal and state services; walk about among some of the hundreds of quango satellites; ask to see a random sample of the correspondence between the Commonwealth and the States, and the States with each other, mark the requests, the proposals, invitations, disputes, opinion memoranda, protests; by leave sit in on some of the hundreds of ministerial and official meetings between the senior public servants of the Commonwealth and States (280 in 1969); check the volume of legislation and regulation that flows from the Commonwealth and State legislatures; cite some small portion of the correspondence between solicitors-general and attorneys-general throughout the Commonwealth; attend some sittings of the High Court or the meetings of the holiest of all holies, Cabinet. This should be enough to convince the unbelievers that they are not looking upon the extinct city of Pompeii, or a Potemkin village, but living scenes from a system of active authority which are little different from the scenes played daily in any modern state. But if this is not enough to persuade the obdurate to believe the evidence of their eyes, then explain to them what a working system is by showing films of non-working, non-existent or totally ineffective systems of government, say films of Moscow April 1917, Beirut 1982, Kampala 1979 or Berlin 1944!

Economic planning

Finally, it is important to recall there is no correlation whatever between the health, welfare and economic success rates of any Western-type political system and the form of its constitutional structure.

Some have argued that the inability of the Commonwealth Government to plan the economy is a serious defect in the Australian federal system.

But a proper reading of the Australian political tradition makes it plain, that the ability to engage in economic planning is hardly an appropriate test of the worth of the Australian federal system (or, for that matter, the British unitary system) any more, indeed, than virginity is an
appropriate test for selecting the most beautiful mother of the year! Without the slightest change in the so-called 'classical' distribution of constitutional power — e.g. the division of power in the constitution of the United States, 1787 — the Australian federal system is as capable of engaging in 'figleaf', 'epiphenomenal' or 'allocative' planning (i.e. a plan enforced by regulation, not command or Gulag coercion) as any so-called 'unitary' state.

How much like fools we would be if we allowed our energies to be diverted to experiment with the dream of an ideal constitution that exists nowhere on earth.

The great question, as we approach the end of the twentieth century, is what precisely is the capacity of the single democratic state to advance its prosperity? What problems can it solve on its own, and what problems can’t it solve? What disposition of what constitutional power, in what kind of world, can make what kind of difference to what things, in what kind of state, with what kind of resources, with what kind of will, and what kind of traditions? Without specificity of at least this order, we can make little advance on the directionless abstractions of the '30s!

To become aware of the limits of state power within our society however, is one thing. What we must also recognize are the limits of our power in relation to the world at large. None of us need to be told that both our perceptions of the world, and the world itself, have changed, are changing, and will continue to change.

Where there was a time once when it was possible to delude ourselves that we could enter or leave the world, open or close our doors at will, it is not quite so now.

That we are linked into the world as never before is, of course, as banal an acknowledgment as the assertion that, over time, the link will grow rather than weaken or disappear. But banality though it is, it bears the profoundest implications for all constitutional systems, federal, unitary or whatever variations or permutations of these classic forms may exist.

A wasteful irrelevance

In the '30s, Harold Laski, Walter Lippman, Max Lerner and many others were dismayed by the constitutional inability of the President of the United States, Franklin Delano Roosevelt, to contain the great corporations that spanned across the boundaries of the nation. But how much more humbling for a later President to discover, like King Canute, that while he could command his own estate more than ever before, he could never command the world to come to his aid when he called. And this, to a much greater degree is precisely our condition. In international trade, for example, Australia is the economic model of a ‘small country’, without monopoly power in exports or imports. The terms of trade are, more or less, given to us, and beyond accepting what the world is prepared to offer us, we can do little to influence what we receive by our own behaviour. In these circumstances, what exercise of what federal powers, for example, or what amendment of what federal power, will save what number of the 750,000 jobs that — we are told — depend directly, or the hundreds of thousands that depend indirectly on the raising or lowering of the protection levels
in the main economies? In a word, however the state is constitutionally organized in Australia its power to influence the economic environment, both inside and outside, is far more limited than the world of the '30s ever believed.

I would suggest, therefore, that it is time to recognize that the entire constitutional debate — if it is about anything other than the mechanics, operation, and organization of the federal parliamentary system*, or the ways of stabilizing the incoherent fiscal relations between the federal and state governments — is a wasteful irrelevance.

Indeed, if anything has become obsolescent, it is not the federal system — such as it is — but the stubborn belief that by a reorganization of power we can live better and survive better within our own domain and outside in a world where the great, medium and small states of the international community can inflict injury on each other. Nietzsche called the Greeks 'political fools' because every experiment they tried, failed. But how much like fools we would be if we allowed our energies to be diverted from the vast experience of working a constitution for 80 years to experiment with the philosopher's dream of an ideal constitution that exists nowhere on this earth.

*(e.g.) the contentious powers of the Governor-General, the question of the Senate and Supply, the synchronization of elections for the Senate and House of Representatives, the duration of parliament, the organization of the judicial courts, etc.).
An Accord with the Unemployed

Much of the concern for the unemployed seems directed to the wrong areas, and policies are often proposed which can harm job prospects.

In the weeks before the Federal election, a sign “700,000 unemployed” was displayed outside St. Paul’s Cathedral in Melbourne. But how much more effective the organisers of the sign might have been if they had displayed their message outside the Arbitration Commission and union offices when the high wage increases of the last eighteen months were being negotiated. These were deals which destroyed many jobs.

Job prospects would certainly be harmed if the Accord on Economic Policy signed by the ACTU and the Labor Party was put into effect.

Two of the key economic assumptions — that real wages should be maintained and that major increases in government spending are required — are precisely the reverse of policies needed to put the economy and employment back on a sustainable growth path.

Unless the savage reduction in profitability can be reversed — and among other things this will require a reduction in real wages — Mr. Hawke’s prediction of one million unemployed may well come true.

Clearly the wishes of the unemployed should no longer go unheard in key economic discussions. A feature of both centralised and collective bargaining is that the unemployed do not have a voice. When new awards are agreed, awards which add to the unemployed, the desire of workers to retain their jobs at the old award is ignored. The unemployed are forced to listen to the empty promises of higher pay for a job that has been lost and may never be revived.

The current stress on big government spending and job creation programmes suits both politicians and trade unions. Politicians like spending other people’s money on their pet projects, and it helps trade union leaders conceal the fact that their continuing efforts to raise award wages have hurt many of their members. If the mere expansion of government spending could create full employment, the ‘seventies would have been a period of unrivalled prosperity. Of course, the reverse occurred despite (or more likely because of) the fact that the size of the public sector (Federal, State and Local Government) increased from around 30 percent to 40 percent of G.N.P. over the last decade.

Given that unemployment was defined as the key election issue, it would have been more appropriate for an accord to be negotiated with the unemployed. The document would have to be well grounded in economic rationality and a (summarised) version could go something like this.
The Accord

We, the 10 percent of the workforce without jobs, believe it is to be grossly unfair that our living standards have been so severely reduced, while many other Australians remaining in employment should have been able to increase significantly their real wages and salaries over the last year and a half.

The most important community priority is not the maintenance of real wages nor improvements in the so-called social wage, rather it is the creation of an economic climate which will enable the unemployed to return to the workforce, to real jobs, and to share in the prosperity being enjoyed by other Australians. We, therefore, invite those genuinely concerned to solve the unemployment problem to show their support for the following programme.

* People currently employed should receive no further wage and salary rises until there has been a clear increase in employment and there is undoubted evidence of the economy’s capacity to pay such increases without adding to costs and inflation.
* Politicians, public servants, teachers, academics, professionals should not exploit their special advantages to make gains while the rest of the community are supporting a policy of restraint.
* In the longer term, demands for higher incomes and improved conditions before the Arbitration Commission should be subject to an ‘unemployment impact statement’. Demands should be allowed only where there is a zero or a positive effect on employment.
* Recognising that minimum wages can have an adverse effect on the young who lack work experience, governments, unions and employers should review the need for minimum wages in particular sectors to enable the unskilled, the inexperienced and the disabled to offer their services at below currently prohibitive minimum rates.
* In order to encourage employment in the labour intensive service industries excessive penalty rates must be reviewed.
* Where redundancies in particular industries are imminent the possibility of job sharing through reduced working hours should be supported by unions, management and the Arbitration authorities.
* Government taxes and charges have cut into the profitability of the productive private sector and have therefore had an adverse effect on employment. It is unacceptable that taxes and charges which reduce employment in the private sector be used to fund improved conditions for those in secure public service jobs.
* Social Welfare organisations, given their special concerns for the unemployed, should use their moral authority to educate the community on the job destruction caused by the demands for excessive wage rises and seek, as interested parties, to support wage restraint in order to improve employment prospects.
Doctors who Cheat
by Dr. Peter Arnold

In the last "I.P.A. Review" it was argued that 'Big Government' tends to erode community standards because of the incentives it creates for individuals to 'exploit the system'. Dr. Arnold examines how doctors and patients can abuse the current arrangements for health care. He argues that the Government should stop squandering the taxpayers' money on universal benefits.

In 1975 an article in *The Australian GP* entitled "How to Rob Medibank Blind" was reprinted in the mass-circulation weekly *Sun-Herald*. The then Minister for Health called it 'tongue-in-cheek'. The president of the Australian Medical Association doubted whether fraud 'was happening on a very large scale'. The Doctors' Reform Society saw the article as 'just part of a conspiracy to get rid of Medibank'.

In 1982 the Department of Health and the AMA agreed that fraud and over-servicing accounted for $100,000,000 annually. The Joint Parliamentary Committee of Public Accounts considered that amount conservative. It blamed successive Health Ministers, departmental officers from the Director-General down, the Australian Federal Police and the Deputy Crown Solicitors' Offices for not being aware of the nature and extent of the problem and for not responding with alacrity.

As co-author, with Dr. David Cunningham, of that 1975 forecast, I welcome this chance of discussing again the phenomenon of cheating doctors.

What is cheating?

The Commonwealth differentiates between fraud (where payment is claimed for work which was not done) and over-servicing (where the work done could be considered not reasonably necessary for the adequate medical care of the patient and therefore not eligible for medical benefits). The detection of fraud involves the federal police collecting evidence from patients, doctors and their staffs, funds and hospitals. If the work for which payment is claimed has not been done, there is ground for a charge of fraud.

Unlike his fraudulent colleague, the over-servicing doctor must actually do the extra work for which he claims payment. The difficulty facing any judge of his behaviour is the determination of what service is 'reasonably necessary for the adequate medical care of the patient'. This problem is compounded by the fact that disagreement can centre on both halves of this phrase: 'reasonable necessity' and 'adequate medical care'.

Perhaps more than any other commentator, Ivan Illich is most widely associated with the lament that today's society has become 'medicalised'. In other words, whatever social ills may affect members of society, it has become socially and politically acceptable to regard these problems as having a 'medical' cause, and to expect doctors to provide remedies. While this has long been the case where a patently mentally disturbed person has committed a crime and has been excused culpability on the ground of his mental incapacity, society is now more than eager to place the causes and the cures of alcoholism, drug addiction, marital disharmony, parent-child disaffection, adolescent delinquency and prostitution
(to name a few) within the shade of the medical umbrella. I regret that some doctors have welcomed this extension of their domain.

**Doctors and social ills**

The pressure on doctors is to accept responsibility for helping people who suffer social ills. Psychiatrists, general practitioners and consultant physicians bear the brunt of this burden. But society, having allocated these problems to the profession, is now finding the cost too great. Unlike the treatment of appendicitis, there is no agreed method of managing any of these social problems, and there is much doubt as to the efficacy of any. A lot of money is spent on doctors using doubtful techniques on the basis of dubious knowledge. It is all too easy for the bureaucrats in the Department of Health to claim that any particular service or course of treatments was 'medically' unnecessary, and to rule that medical benefits are not payable. If the doctor has already been paid, the Department then pursues him with the aim of making him pay back the money the Department considers he should never have received. One simple example, which will surprise most readers, is that medical benefits are not payable for the counselling given by a GP to the family of a sick child, parent or spouse, no matter how complex the problem or how sick the patient.

A lot of money is spent on doctors using doubtful techniques on the basis of dubious knowledge.

How does the Department's willingness to limit the payment of benefits to services which provide 'adequate' medical care square with the politician's perennial promises to provide 'the best' health care services? More importantly, how does it square with the desire of the individual doctor to provide the best service of which he is capable for each of his patients? Is he not at risk, in providing 'optimal' services, of being accused of overservicing when 'adequate' attention would, in the Department's opinion, suffice? The social, political, philosophical and economic implications of such a conflict are too broad for treatment here. The point to note is that doctors have already been prosecuted for providing a service which they consider 'optimal' for their patients, while the Department charges that these services have exceeded what it would regard as being 'adequate'.

**Reasonable necessity**

The problem of the 'reasonable necessity' of any particular treatment — whether surgical, medical, physiotherapeutic — is equally vexed. Take a fairly simple example of appendicitis. My professor of surgery, later Dean of the faculty and now Vice-Chancellor of the University, taught that one-fifth of all appendices removed should be healthy. If less than a fifth were healthy, the surgeon was probably not operating as often or as promptly as he should, and was missing some cases which another surgeon would have to tackle, perhaps in an emergency. If more than a fifth were healthy, he was probably operating too often and unnecessarily. A good rule of thumb, but one man's rule on which it is unlikely that all surgeons would agree. Tonsils, adenoids, hiatus herniae, peptic ulcers, gallstones, kidney stones, inguinal herniae, prolapsed or fibroid wombs, diverticulitis, haemorrhoids, enlarged prostates, varicose veins — the list is almost endless
of instances where, depending on the precise problems being suffered by the individual patient and on the particular experience of the individual surgeon, an operation may or may not be advised and agreed to. But who is to judge what is ‘reasonably necessary’?: the suffering patient, the knowledgeable and experienced surgeon or the departmental bureaucrat viewing the computer printout comparing that surgeon’s work with the average done by his peers?

**Who is to judge what is ‘reasonably necessary’, the patient, the surgeon or bureaucrat.**

Can we know the ‘reasonable necessity’ of much medical treatment when we know that many illnesses will respond to reassurance and explanation, and that placebo treatment (using inactive pills such as simple sugars disguised to look like the real thing) will often achieve results comparable with active medicines? Most minor ailments are self-limiting, but doctors, physiotherapists and others can make them more bearable. Is such ‘pandering’ to our spoilt western population ‘reasonably necessary’? These are value judgements which are presently determined on an individual basis between patient and doctor. What Australian would welcome the thought of government dictating the ‘reasonable necessity’ of his medical care? Where would the Department find and how would it choose the ‘reasonable men’ whose opinions would form the basis of the Department’s determinations?

Indeed, the concept of ‘reasonable necessity for adequate medical care’ is so difficult to define that governments have fought shy of the attempt. Instead, the Department reverses the rules of natural or British justice by demanding that accused doctors defend themselves by proving their innocence; in the absence of any legislative definition of the charge, this produces a Kafkaesque situation.

What is ‘reasonably’ necessary to satisfy the anxieties of one patient suffering from condition X may be woefully inadequate for another patient with the same condition. If ever there were a gap between ‘demand’ and ‘need’, it lies in the reassurance which will ameliorate the mental agonies of the worried patient. He and his doctor will hopefully find a level of reassurance which will be satisfying for the former and feasible for the latter. I leave it to you to evaluate the idea that government determine how much time is ‘reasonably necessary’ for the reassurance of the seriously ill and worried patient (or even the worried, well patient).

**How do doctors cheat?**

Most doctors are concerned that the fee they charge should closely approximate the rebate which the patient receives from the fund. By claiming that the service performed was one which attracts a higher rebate, he can readily charge a higher fee, dishonestly. GPs can claim that the service was longer or more complex or was done after hours; can request patients to return for extra follow-up consultations; can claim for seeing a number of hospital patients on separate occasions, when in fact they were all seen on one ‘round’. Surgeons can claim that the operation was more complex than it was. Physicians can do many complicated examinations and can call the patient back for follow-ups which could be done by the GP. Radiologists can take extra pictures and pathologists do extra tests
(although recent legislation has modified the extravagant abuses of some pathology entrepreneurs.) Any specialist can cheat by claiming that the patient was referred to him by another doctor, while he obtains the required referral forms from his hospital resident or from the specialist in the adjoining office in Collins or Macquarie Street. This is but a glimpse into the myriad ways in which those with the will to cheat can rip off the system. As long as the patient’s rebate is close to the fee charged by the doctor, the patient has no interest in the fees charged or the descriptions of the services claimed to have been performed.

Why do doctors cheat?

Firstly, they do not see that it is their patients whom they are robbing. The ‘extra’ money comes from the anonymous funds or from the Commonwealth and is comparable with the cash pocketed by the corner storekeeper, the expense account of the business executive, the tradesman’s cash payment for his service call, the worker’s ‘sickies’ or the small businessman’s partnership (and tax-splitting) with his wife. Doctor-cheating is, I suspect, more often than not on the level of the almost universal Australian challenge — how to beat the tax-man.

Secondly, it is so easy. One of my devoutly Christian American colleagues places equal blame on any system which places unreasonable temptation before mere mortals by allowing them to cheat with almost no chance of detection.

Because the patient is not responsible for the additional charges, he is not aware when the doctor is cheating. Even where he is, he is often on the doctor’s side and abets him. Examples are the repatriation or pensioner patient who knows that the doctor is being paid a discounted fee and who encourages the doctor to claim for two or more services where only one was given. He will happily sign the additional vouchers so that the doctor can receive his ‘proper’ fee. Because the funds do not know what is going on at the time of the service, they are in no position to query the doctor’s account. ‘Bulk-billing’ the government for services to pensioners and other indigent patients offers the perfect medium through which the cheating doctor can maximise his revenue.

Thirdly, many doctors seem to believe that the taxation system treats them unfairly. They cannot form income-splitting companies; they have not, until recently, been able to superannuate themselves at levels commensurate with their earnings; all their receipted moneys are easily traceable, so there is no cash in the pocket; they rapidly reach the top income-tax bracket and resent having to pay 60 cents in the dollar on fees earned late at night or on weekends; their expense accounts are almost non-existent, and so on.

Fourthly, GPs generally resent the hours which the Department has determined as being normal hours for rebate purposes: 8 a.m. to 8 p.m. and until 1 p.m. on Saturdays. They are being expected to work a 65 hour-week with ‘after-hours’ commencing only after that many hours of work. It is not surprising that they are tempted to claim early evening calls in winter or late Saturday morning calls as being ‘after-hours’.

There must be other reasons why some
of my colleagues cheat. These are some I have heard being advanced and against which I have often argued.

Non-cheating abuse and misuse

The doctor who has some doubt, however small, which he feels could be resolved by some costly pathology or x-rays tests, has little hesitation in suggesting these to his patient for the peace of both their minds. The patient appreciates this conscientious care.

Meanwhile the anxious, even neurotic patient, can have his fears assuaged only by resort to the latest complex technological gadgetry about which he has read the most fulsome praise in the media. Confronted with the true cost, to the funds, of these additional tests and challenged if he would pay for them were he to have to pay out of his own pocket, he would demur. But, as he is insured and isn’t paying himself, he will demand the test. Should the doctor refuse on the basis that the test isn’t necessary, the patient will go from doctor to doctor until he finds someone willing to co-operate. I believe the record number of physicians consulted by one dissatisfied Canadian patient, using ‘Medicare’, is eighty-four! Most doctors, being human, and preferring not to have to argue with their patients, will tend to agree when the patient asks for an expensive test which they have read about or know could possibly be relevant to their condition. There is the additional legal predicament should the doctor refuse that test and the patient subsequently be found to have a serious problem which would have been detected had the test been done!

How is cheating detected?

The Department maintains a Fraud and Over-Servicing Service (FODS) which studies computer printouts of every doctor’s practice ‘profile’. This is compiled from information supplied by the registered funds. Where a doctor’s profile varies significantly from the average for his group (say ear, nose and throat surgeons) then the Department sends a counsellor to discuss the doctor’s profile with him and to see if there are any obvious reasons for his being abnormal.

It is high time that government ceased supporting doctors’ incomes.

The doctor charged with over-servicing can defend himself by only one means — reference to the detailed problems of the patients whose claim forms have provided the data base on which FODS bases its accusations. But in using this means of defence, he is clearly in breach of the confidentiality expected of him by his patients.

Can cheating be stopped, how and at what costs?

All cheating can’t be stopped. Any attempt to do so would need a gigantic bureaucracy, the costs of which and the intrusions of which would be counter-productive in social costs and public acceptance. But there is one simple measure which could, I am sure, considerably diminish both the scale of this drain on public money and the costs of surveying the truthfulness of the claims being made.

In general, most Australians can afford run-of-the-mill medical services. They need insurance for major or lengthy illnesses, not for day-to-day trivia. Were the majority of Australians to abandon the registered health insurance funds and insure with commercial insurers in schemes with ‘excess’ payments (as they
do for motor car insurance) then each individual would be aware of and concerned about the fees he was being charged by doctors. "But, doctor, is it really necessary?" would replace today's "As it doesn't cost me anything, doctor, let's do the extra test."

As for the perhaps 15% of the population who can afford neither to belong to one of the registered funds (now costing close on $1000 annually) or to carry an 'excess' of $500, government could contract with doctors for their treatment, such contracts to include appropriate audit provisions to safeguard the spending of taxpayers' money. Government would then be fulfilling what many see as its appropriate role — helping those who need help, rather than squandering the taxpayer's money on universal benefits which all can abuse and which are likely to be used far more by the knowledgeable middle classes than by the poor for whom such benefits are intended.

After thirty years of government involvement in health insurance, it is high time that government ceased supporting doctors' incomes and devoted its resources to helping those in need to obtain health care at a price they can afford. Despite its commitment to the welfare of the disadvantaged, the Labor Party retains a doctrinaire belief in the sanctity of universal benefits.

If Prime Minister Hawke is as committed to pragmatic gradualism as his campaign tactics and early Prime Ministerial statements would have us believe, he might be able to persuade his colleagues to recognise in what ways overseas universal health insurance schemes have failed. He might even be able to make his team see that patients who are both health- and cost-conscious and insurers who are both fair and competitive are likely to be more effective in containing costs than would be the establishment of yet another investigatory commission. By avoiding such an extension of the bureaucracy, he would escape the inevitable political backlash when departmental investigations are seen to threaten the confidentiality of every patient's relationship with his doctor.

I am indebted to Professor Colin Tatz, of Macquarie University, for his helpful criticisms in the preparation of this paper.
Job Creation Programmes for the Middle Class

Perhaps the most significant change in the pattern of employment in the last ten years has been the massive growth of jobs in the 'community services' sector.

Over half the additions to employment in the Australian economy during the 'seventies was in the area of 'community services' — mainly institutions concerned with health, education and welfare.

Between 1971 and 1981 over 400,000 additional jobs were created in this sector. In the economy as a whole total employment rose by just over 800,000 during this period.

In contrast to the booming growth in employment opportunities in health, education and welfare, the primary sector (mainly agriculture and mining) grew only marginally, while in manufacturing total employment actually fell over the ten years. (Apart from community services, the only other major employment 'growth' area was in finance and property services.)

The disparate employment trends between 'community services' and most other sectors of the economy are not unrelated. Unlike most of the primary, manufacturing, and service industries, 'community services' depend to a significant extent on government funding; State and Federal Governments during the last decade have been very effective in using their taxing and borrowing powers to divert resources away from the private sector.

Despite the present apparent consensus on the need for restraint, a new binge of public sector spending is certainly possible. In any upsurge in public sector spending community services are likely to be important beneficiaries. Politicians therefore might bear the following thoughts in mind.

First, by any standard, Australia has given a very high priority to the development of community services over the last decade.

While lobby groups often seem to give the impression Australia has ignored its responsibilities in these fields, in fact substantial gains have been made (as measured by nursing home beds, teacher/student ratios, access to medical services, for example).

Second, these gains have sometimes been made at excessive cost, as the various reports on hospital administration and medical fraud indicate. Nor has increased expenditure always resulted in more consumer satisfaction. (Witness dissatisfaction with educational standards).

Third, spending priorities on community services, often tend to reflect the preferences and interests of the providers rather than of the consumers of the services. The pressure for more funding, more employment, continues regardless of the capacity of the economy to pay. Community services of course are largely insulated from such things as oil shocks, world recessions, wage explosions and import competition.

Fourth, governments find it hard to resist the funding demands from the
health/education/welfare lobby groups and related areas of spending (as well as the cost of implementing their own election promises). This has meant that the burden of taxes and charges on the private sector has tended to increase at the very time when substantial taxation relief should have been offered to help preserve private sector jobs. Increased payroll taxes, for example, to fund more teachers at higher salaries, would in the current climate tend to increase unemployment in the market sector — the unskilled lose their jobs, in order to provide employment for the tertiary educated.

Favouring the tertiary educated

Fifth, labour force statistics suggest that an expansion in community services in fact favours the tertiary educated compared with tradesmen and workers. Professional and technical personnel comprise some 56% of all employees in community services compared with 7% of employees in manufacturing. By contrast, tradesmen, process workers and labourers comprise only 5% of the workforce in community services but 70% in manufacturing. Unemployment among tradesmen, production workers and labourers is well over three times that of the professional groups.

Finally, the capacity of our economy to sustain the gains in the community services will depend ultimately on the health of the market sector, its capacity to fund current commitments and provide scope for further improvements. In view of the massive structural shift in the economy towards community services over the last ten years, the question must be asked whether further substantial growth in this sector, particularly in the area of medical and educational personnel, will in fact add to overall community welfare — as distinct from benefits to particular professional groups. The costs of a major expansion will further increase tax burdens on individuals and companies and have adverse effects on job creation for workers in the market sector.

**EMPLOYED PERSONS BY INDUSTRY ('000)**

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<th>1982</th>
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<td>Community Services</td>
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<td>1022</td>
<td>1050</td>
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<tr>
<td>Retail trade etc.</td>
<td>1112</td>
<td>1265</td>
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<tr>
<td>Finance etc.</td>
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<td>555</td>
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**EMPLOYED PERSONS, COMMUNITY SERVICES ('000)**

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<th></th>
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<td>Welfare</td>
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<td>73</td>
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<tr>
<td>Other *</td>
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<td>123</td>
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<tr>
<td><strong>TOTAL</strong></td>
<td>615</td>
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*including research, employment services, police, prisons, fire brigades, business associations.*
Freedom and Wealth Creation

by Paul Johnson

Despite the world recession, Paul Johnson argues that capitalism is in reasonably good shape. But some old lessons are having to be re-learnt, including the fact that the less government interferes with the market, the greater the measure of freedom and democracy we will enjoy and the bigger the economic harvest.

It is often asked, and I notice it is being rather urgently asked in Australia at this moment: is capitalism in terminal decline — is the system under which we've lived for so long rotten at the core and about to collapse? To this I think I can give a very firm answer — No. The capitalist economy, by which I mean the world series of interlocking free market economies, of which Australia is a part, is in reasonably good shape with a long and indeed indefinite future ahead of it; a future of growing prosperity, though the growth rate will be geographically uneven and chronologically rather jerky.

It's useful to remind ourselves that throughout the 1930s there was a very widespread belief, and in some quarters a widespread hope, that capitalism was in its final crisis and would shortly perish from its own failures and internal contradictions. And all this was on the eve of the most sustained and spectacular phase of growth in the entire history of mankind.

The crisis of the 1930s was on the eve of the most spectacular phase of economic growth in history.

The low point came during the great slump, the decade 1929-1939, but even then the average growth rate was 2 per cent higher than anything in the 18th century and much higher than anything hitherto accomplished in the whole history of mankind. Moreover, in the next decade, 1938-48, it leapt to over 4 per cent again and in the quarter century, 1948-71, it reached the collosal annual average rate of 5.6 per cent.

After this breathtaking and sustained effort of growth, some deceleration was inevitable and it's come in good measure since the middle of the '70s. But growth has continued none the less, if more slowly and patchily. On a world-wide basis it's worked out during the last decade at about 3 per cent and that's well above average if we take the whole history of the capitalist system and implies a doubling of living standards every 25 years or so. It's no miracle but it's pretty
solid progress and there is certainly nothing terminal about it.

The decade of illusion

One can look at the last three decades of recent history in a slightly different way, taking in non-economic factors, and my analysis is as follows: The 1960s I call "the decade of illusion", the illusion that the world economy would continue to expand rapidly, smoothly and indefinitely, that rising expectations could be systematically matched by an ever-growing gross national product in the form of higher real wages and expanded social services, and not least, that the cultural quality of life could be radically improved by public intervention. Hence, the spectacular and world-wide expansion of higher education which was an even more characteristic feature of these years.

The 1970s were almost inevitably "the decade of disillusionment", a return to the real world of economic cycles. We lost confidence in fast, indefinite growth, in the notion of cheap, limitless energy, in the idea of the world as an inexhaustible mine of resources. We lost confidence in cheap credit, deficit financing, printing currency, in throwing money at social problems and in throwing money at poor countries, hoping they'd go away. We lost confidence in education as a cure-all and in the social democratic state as the repository of benevolent omniscience.

In the process of discarding these illusions, some rather old-fashioned truths were rediscovered. The paramountcy of hard, honest money, the advantages of balanced budgets, the need for the discipline of competition, the virtues of a free market, the evils of excessive government size and hyper-activity. We learnt to fear inflation as our ancestors feared the plague, and to prize price stability as the only reliable basis on which to plan investment and restore full employment.

These painfully acquired lessons, let us hope, are making the 1980s "the decade of realism", the new realism we might call it, though it's really only the old-fashioned economic fundamentalism of Adam Smith, newly engraved upon our hearts. The fundamental prosperity will, I think, continue, but only provided we retain our confidence in economic freedom.

Freedom is indivisible. All freedoms are encompassed in the freedom to choose for ourselves, the notion that we are endowed with free will, and that the right to choose lies with the individual and not with society. Of course, the individual can delegate his power to parliaments and assemblies and congresses.

One of the chief errors of modern times, an error to which I plead guilty during the quarter century in which I was a Social Democrat, is the belief that we can separate political and economic freedom. I used to think that they were quite different things and that you could preserve and even enhance political freedom while restricting economic freedom quite severely. Now, I don't think that's true any more. I've learnt this both from the study of history and from observing what has actually happened in recent years all over Africa, over much of Asia and Latin America and parts of Europe too.

Political freedom and economic freedom

It's become clear to me that the destruction of economic freedom leads almost inevitably to the destruction of political freedom. For the truth is, without sufficient economic freedom, you
cannot create wealth, and when men and women become angry at this failure to create wealth, you are driven to restrict their political freedom too. And I think the opposite is also valid, where political freedom no longer exists it is hard to maintain economic freedom for long.

That is the pattern of what happens — and all this sad process springs from the refusal to admit that the free market with all its faults is the best way of producing wealth.

The market is not the law of the jungle .... it is a system of knowledge.

The truth is, all the so-called freedoms are aspects of one fundamental freedom which is based on the proposition that the individual is usually a better judge of his interests than any collective. Once one aspect of this freedom is secured the others accrue in time, once one aspect is lost the others tend to disappear in due course.

The market as a system of knowledge

Now I'd like to illustrate this proposition and in so doing argue the case for the social benefits of freedom by dwelling on one particular aspect of freedom, the freedom of the market in goods. Of course, the social benefit of the free market is often denied. It's denied especially by many intellectuals and academics throughout the West. Such people, of course, would go to the stake on behalf of the freedom to seek and acquire knowledge yet they would severely restrict the operation of the free market, denouncing it as the law of the jungle. Yet in fact the market is not the law of the jungle at all: in essence it is a highly sophisticated system of knowledge. Let me explain.

One of the most common of human fallacies is the assumption that goods have a fixed or absolute value and that those who make or grow goods have a unique entitlement to that value. This assumption has been termed the physical fallacy and it treats any kind of middleman, or non-producer, as a sort of parasite. The assumption is basic, for instance, to Marx's Labour Theory of Value and indeed to his whole detestation of the bourgeoisie as opposed to the proletariat, because he regarded the proletariat as the only genuine producers of value.

I was made aware of the consequence of this physical fallacy when I first visited Indonesia in the twilight of the obnoxious Sukarno regime. Sukarno was not only a socialist but he was a racist too and he persecuted the minority Chinese business community to the point where it was no longer able to function. As a result, in the capital Djakarta there was virtually nothing to eat. Less than a hundred miles away (as I saw for myself) villages were producing fruit and vegetables, even meat, in abundance and it was rotting unsold. No Chinese traders ran the trucks which carried the food from villages to the capital — they had all been hounded off the scene and no one had yet been able to take their place, so the market system didn't function.

The truth is, of course, there is no such thing as absolute value in goods — it all depends on where and when those goods can be found. Goods in the wrong place at the wrong time, or even in the right place at the wrong time, or in the wrong place at the right time, have a diminished value and, if they're perishable, they have no value at all. The essential function of the market is to change the location of goods in space and in time and it is location and
timing which determine value, and so price. Getting the location and timing right is a highly professional business in which the penalties for misjudgement or incompetence are at least as severe as in manufacturing and farming. The middleman therefore is no more a parasite than the physical producer.

**Non-market economies and rationing**

Now, it’s a matter of common observation that free market systems are more effective at getting the location and timing right and so delivering the goods than collectivist ones. Why is this? Why is it that 65 years after the collectivist revolution, why is it that the Soviet Union, with more land under cultivation than any other nation on earth, experiences chronic food shortages during which it is forced to avail itself of surpluses produced by the market economies of the United States, Australia, Canada and Western Europe? Why are the Soviet Union and other non-market economies forced to employ rationing of most consumer goods — that is to say, rationing either by time, because they force you to queue for it, or by occupation so that shops selling scarce goods are open only to party functionaries or those who have access to foreign currencies — why is this?

One can provide many explanations but they all boil down to the same thing. Economic efficiency is the consequence of taking the right decisions and taking decisions correctly depends on access to accurate knowledge, and that is essentially what the free market provides. The market is a natural device for the speedy conveyance of cheap, accurate and objective information. Since there’s no absolute value in goods, the free market will tell you the exact going price and the level of demand of anything in any place and at any time in the area where it’s allowed to function. It is speedy because the market is functioning round the clock all over the world. It’s cheap because it’s based upon an endless multiplicity of real transactions and it’s objective because the market is not an institution with a purpose and an ideology but a simple mirror of human desires in all their nakedness.

**Economic efficiency depends on access to accurate knowledge; that is what the free market provides.**

Where the market provides access to this quality of information the quality of decision-making will improve accordingly and this would in turn be reflected in economic performance and so in social benefit. The market is a knowledge system. The moment governments start to intervene in the market, for whatever reason, and there may and indeed are very good reasons often enough, the volume and quality of the information necessarily declines. The information ceases to be wholly objective because it tends to reflect the subjective views of the interventionist, so the market begins to give out false or misleading signals. Indeed, beyond a certain point of intervention it does not give out any signals at all and a great silence and darkness descend.

Of course, in the very long term success or failure will manifest themselves even in a totally controlled economy; first in the form of queues and then in the form of riots, as indeed we’ve seen in Poland. The social virtue of the market is that it provides not only accurate information for decision-making but instant feed-back after the decisions are taken so that it’s not merely an early warning system for
catastrophe but a continuous warning system which allow us to monitor the effects and decisions from day to day and to correct them accordingly. Hence, government restrictions on the market are forms of censorship, suppressions of truth or attempts to "poison the well". They are forms of rigging, attempts to bias the market in favour of some group or purpose, which may of course be admirable, to the disadvantage of another.

**Government attempts to rig markets**

Now, when private individuals capture and rig a market we recognise the process for the evil it is. You may remember two years ago in 1980, the Hunt brothers of Texas tried to corner and control the silver market. What a storm of reprobation they aroused. Their failure and the huge losses they incurred were universally hailed as a great moral example to us all and of proof that there was still some justice in this world. Yet what the Hunts attempted, once in a lifetime, governments do every day and where the Hunts ignominiously failed, governments succeed because they possess something which the Hunts, with all their vast resources, conspicuously lacked. They possess statutory power. Government rigging, government suppression of market freedom and so on, is legal. Supposing the Hunts had succeeded, the most important effect would have been to cast an impenetrable veil over the true, that is the market, price of silver. You may think this particular bit of knowledge is unimportant.

Let us therefore turn to some areas that everyone recognises as important. In communications for example, both the British and the United States governments, and indeed the Australian government, limit market freedom by imposing state monopolies in mail. Market signals about the best way of running a mail service are silenced because only one is permitted. In 1980, the General Secretary of the British Postal Workers Union, which has a deep vested interest in the rigged mail market, boasted publicly that he had alerted all his members to stop and report for prosecution any British firms which were taking their circulars in bulk to Holland and posting them there for delivery in England. You may think that the fact that it was cheaper to take the stuff to Holland and post it there for delivery in England was a fearful condemnation of the British mail monopoly. Exactly — it was. Here the market was struggling to give us a piece of information highly unfavourable to the riggers so they promptly conjured up an army of spies and informers to have that information suppressed by law.

Restrictions on the freedom of the market, or rigging as I call it, and thus a suppression of knowledge, takes many forms. Many Western governments, for instance, limit the free market in T.V. and radio broadcasting (you do it here) by an enormous carve-up of franchises, that is absolute or quasi monopolies, administered in authoritarian fashion by public bodies. As a result, nobody knows in any of these countries which is the most efficient, cheap or popular form of broadcasting. The free market solution is to award contracts or franchises to the highest bidders, then there is a chance of the viewing public getting the programs they want rather than what they are served up by the high-minded riggers who administer the system. The new cable T.V. system, for instance, gives them that chance and I notice attempts are being made here, in Britain, and in the United States to rig that too.
The freedom of the newspaper market, to take another example, is limited in a different way by the existence of labour monopolies. It's a curious fact that whereas most western countries have quite fierce and extensive monopoly and anti-trust legislation they all permit labour monopolies to flourish. As a result, New York, for instance, one of the greatest and richest cities on the earth, has only three daily newspapers. London is luckier with 10 but many of them precarious because of labour monopoly. Now thanks to modern electronic means of printing, both those cities have a population which I calculate would justify between 30 and 50 daily newspapers — but they haven't got them because of labour monopolies. Why do I say between 30 and 50? Well, that is not an accurate answer because I can't know the true answer because we haven't got a free market in newspapers which would in fact provide us with the true answer of how many newspapers could be supported.

Making a mess of energy policy

Nowhere is government rigging, and suppression of knowledge, more prevalent and socially baneful than in energy. Nearly every country is making a mess of its energy policy because nowhere is the market allowed freely to tell us the truth, the whole truth and nothing but the truth. We have so many forms of energy, coal, oil, shale oil, natural gas, wind and water, nuclear power, other forms of energy yet undreamt of but waiting to be tapped, the range of options and the permutations within them, are almost infinite.

It's beyond the wit of any government, any government composed though it might be of disinterested geniuses, a cabinet of Einsteins, to get right the complex decisions and choices which will be justified in 10, 20 or 50 years time in the energy field. Yet it is in this field above all that governments consistently refuse to allow the market to operate freely and thus falsify and distort the information that it so abundantly provides.

A cabinet of Einsteins could not get right the complex choices in the energy field.

For the market is a system of knowledge and its conclusions are socially just or balanced because it is essentially democratic. In elections, in political elections, we vote once every two or three or four or five years; that's what the freedom to vote means. But in the market we vote with our pennies about the press every time we buy a newspaper and that gives us some control over the owners. We vote with our fingers when we turn the knob of our T.V. set provided there are enough channels to give us proper choices. We vote about transport policy when we decide every day how we're going to get to work. We vote about energy policy, every winter, when we decide how we're heating our home. The greater the range of choice in all these matters, and that is to say the less governments — benevolent or otherwise — interfere with the market, the greater the measure of true freedom and democracy we enjoy and the bigger the harvest of social benefit in terms of increased efficiency.
Medibank revisited
by C.R. Wilcox, General Manager, Medibank Private.

The July/September 1982 issue of the Review carried an article entitled “The High Cost of Medibank Private” which was critical of the performance of Medibank Private and argued for “government withdrawal from this sector of the financial market”.

Regrettably, the author has based much of his argument on assertions which are without foundation and on “facts” which are demonstrably untrue. I believe it to be essential in the interests of a balanced presentation to your readers, and in fairness to Medibank Private, that such assertions should not go unchallenged.

Issue could be taken with many of the opinions expressed and inferences drawn in the article but, for reasons of space, attention will be focused on three main criticisms advanced by the author in support of his case for Medibank Private being “withdrawn” from the health insurance field.

1. The article contends that Medibank Private received favoured treatment by starting life with a “number of significant advantages” over its privately owned competitors, including “its inheritance free of charge.....of a computer system worth $35m”.

The reality is that Medibank Private inherited nothing of the sort. The original Medibank computer equipment belonged to the Department of Health, and from 1976 Medibank Private was required by Government policy to hire it at commercial rates. The arrangement proved unsuitable for use in a private insurance environment, and in 1978 Medibank Private purchased its own computer equipment and developed its own on-line systems, all from its own resources.

2. The article then turns to the question of “economic viability”, and castigates both the Government’s Registration Committee and Medibank Private over the fact that its free reserves have yet to reach a level which the Government considers appropriate to large health funds.

It is surely axiomatic that free standing reserves can only come from two sources — establishment capital provided by the founding body and/or from accumulated profits from past operations. As to the first source, the facts are that in 1976 the Government provided the Health Insurance Commission with a repayable “establishment loan” of $10 million — a sum which was clearly inadequate to meet “normal” reserve requirements in the short term.

In the event, the following year (1977-78) proved disastrous for the health insurance industry, where losses totalled $153m., including $62m. by M.B.F. and $21m. by Medibank Private. As your article (rightly) points out, “in the absence of Government authority to increase contribution rates, the private funds had to absorb their deficits by running down accumulated reserves”. Medibank Private had no such accumulated reserves to cushion these losses, and much of the subsequent criticism of the level of its reserves flows directly from the 1977-78 experience.

Shortly thereafter, significant changes to the health insurance arrangements were introduced. With effect from 1 November, 1978, Medibank Standard was abolished and the Medibank organisation began to operate solely as a registered health fund, i.e. Medibank Private. The changes introduced by the Government included a decision to grant capital of $21m. to Medibank Private — including the original $10m. establishment loan. Two points need to be made in respect of this capital:

(a) the amount was still significantly short of equating to two months reserves; and

(b) more importantly, the amount only just covered losses incurred in the previous year which had resulted from government policies for the industry generally.

Thus Medibank Private’s financial position at 1 November, 1978, was as follows:-

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accumulated losses</td>
<td>$21,709,000</td>
</tr>
<tr>
<td>Establishment capital</td>
<td>$21,000,000</td>
</tr>
<tr>
<td>Net Reserves (-)</td>
<td>$ 790,000</td>
</tr>
</tbody>
</table>

It is clear that the new organisation was undercapitalised from the very beginning.
Medibank Private has made an overall profit in every year since 1978, as a consequence of which its free reserves have grown to $40m. by 30 June, 1982. With the decisions of Government on capital, the only way its reserves could now be higher would have been to make greater profits from its contributors. Your article acknowledges the rapid growth of Medibank Private but overlooks the significant problem of reserves growing at the same rate as income. Our relatively low reserves are in fact a product of our success in the market-place — membership and income have grown so quickly that there is no reasonable way reserves could keep up in the short term.

3. Another major segment of the article is devoted to a comparison of the "management expense ratios" of various health funds, which are taken to be an indicator of "efficiency". In attacking Medibank Private on these grounds, the article ignores the warning sounded by the Department of Health in its Annual Report on the Health Funds that the management expense ratio "is not necessarily a guide to the relative efficiency of a fund, as it will be influenced by such factors as.....establishment costs for new organisations".

It is a fact that Medibank Private's management expense ratios have been higher than those of its major competitors during its early years. But it is also a fact that the situation has altered dramatically as Medibank Private has emerged from its establishment period, as illustrated by the following comparative information extracted from recently released Annual Reports for the year 1981-82:—

<table>
<thead>
<tr>
<th>Health Fund</th>
<th>1979-80</th>
<th>1980-81</th>
<th>1981-82</th>
</tr>
</thead>
<tbody>
<tr>
<td>H.B.A. (Victoria)</td>
<td>13.3%</td>
<td>13.7%</td>
<td>13.1%</td>
</tr>
<tr>
<td>H.C.F. (N.S.W.)</td>
<td>9.4%</td>
<td>10.6%</td>
<td>11.3%</td>
</tr>
<tr>
<td>Medibank Private (Australia)</td>
<td>16.0%</td>
<td>15.5%</td>
<td>11.3%</td>
</tr>
</tbody>
</table>

The picture which emerges from this comparison is significantly different from that painted in the article.

There are many other ill-founded and indefensible assertions in the article. To quote but one example, the fact that the Victorian Branch announced its contribution rate increases some weeks after (rather than before) its competitors in 1978 is labelled as a "stunt" designed to "trigger an exodus from the private funds". To go on to infer, as the article does, that this Victorian "stunt" somehow led to the need for an injection of $21m. in November, 1978 is logically absurd.

Medibank Private makes no apology for its performance over the few short years of its existence. It has now become the largest health insurance organisation in this country and it has done so on the basis of the service which it provides to its members. This is a service which has set a standard for the whole of the health insurance industry in Australia.

Reply

Mr. Wilcox criticizes the "Review" article on three grounds.

It is indisputable that Medibank Private has received many advantages compared with the private sector as a result of its association with the Commonwealth Government. On the question of the new computer it is worth noting that by 1978 Medibank had an accumulated deficit of $17 million. It is a matter of judgement, but it seems unlikely that in the absence of a government association a private organisation with a similar accumulated deficit could have raised the finance necessary to acquire a major computer system.

Mr. Wilcox accepts "Review's" analysis of Medibank's failure to achieve "economic viability". But he then goes on to excuse Medibank for failure to hold sufficient reserves on the ground that insufficient time has passed since Medibank's establishment to accumulate the prescribed reserves.

After five years of operation and a substantial injection of funds from the Federal Government, the six State Medibank organisations hold on average, only about half the reserves required of private health insurers in similar circumstances.

Mr. Wilcox claims that his figures on the efficiency of Medibank Private paint a significantly different picture from that in the "Review" article. He supplied some new selected figures, released after the "Review" article was published. The figures show some improvement in Medibank's performance.
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